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Independent Auditors' Report

TO THE SHAREHOLDERS

PROCREDIT BANK A.D. BEOGRAD

We have audited the accompanying consolidated financial statements of ProCredit Bank a.d. Beograd ("the Bank"), which comprise the consolidated statement of financial position as at 31 December 2013, the consolidated statements of profit and loss and other comprehensive income, consolidated statement of changes in equity and consolidated cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Matični broj:17148656
PIB: 100058593
Račun: 265-1100310000190-61
KPMG d.o.o. Beograd je jednočlano društvo.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Bank as at 31 December 2013, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Matters

The consolidated financial statements of the Bank as at and for the year ended 31 December 2012 were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on 23 April 2013.

KPMG d.o.o. Beograd

21 March 2014

KPMG d.o.o. Beograd
Kraljice Natalije 11
11000 Beograd

PROCREDIT BANK A.D. BEOGRAD

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

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Consolidated statement of profit and loss and other comprehensive income

	Note	Year ended 31 December 2013	2012
Interest and similar income	4	7,236,215	7,442,011
Interest expense and similar charges	4	(2,048,910)	(2,300,073)
Net interest income		**5,187,305**	**5,141,938**
Fee and commission income	5	1,432,091	1,454,800
Fee and commission expense	5	(217,412)	(215,142)
Net fee and commission income		**1,214,679**	**1,239,658**
Net trading income	6	189,340	212,903
Net result from derivatives	7	(17,224)	(42,018)
Dividends from available-for-sale securities		182	58
Other operating income	8	72,637	32,247
		6,646,919	**6,584,786**
Other income	9	6,921	13,037
Net impairment loss on financial assets	10	(99,753)	(826,677)
Personnel expenses	11	(2,060,995)	(1,967,660)
Depreciation and amortization		(294,494)	(290,470)
Other administrative expenses	12	(1,597,441)	(1,543,413)
Profit before tax		**2,601,157**	**1,969,603**
Income tax	13	(328,834)	(155,108)
Profit		**2,272,323**	**1,814,495**
Other comprehensive income			
Items that will never be reclassified to profit or loss			
Change in remeasurements of defined benefit plans (actuarial gains and losses)		9,872	-
		9,872	-
Items that are or may be reclassified to profit or loss			
Change in revaluation reserve from available-for-sale financial assets		9,874	7,956
		9,874	**7,956**
Other comprehensive income, net of tax		**19,746**	**7,956**
Total comprehensive income		**2,292,069**	**1,822,451**
Profit attributable to equity holders of the Bank		**2,272,323**	**1,814,495**
Total comprehensive income attributable to equity holders of the Bank		**2,292,069**	**1,822,451**

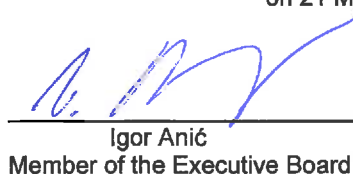
The accompanying notes on pages 5 to 70 form an integral part of these consolidated financial statements.

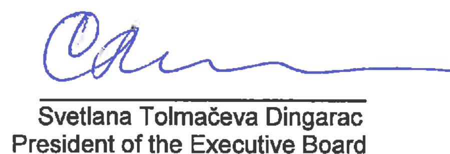
Consolidated statement of financial position

	Note	As of 31 December 2013	2012
ASSETS			
Cash and cash equivalents	14	13,194,655	11,433,656
Loans and advances to banks	15	1,052,866	1,344,906
Loans and advances to customers	16	52,226,961	52,875,985
Derivative financial assets	17	75	1,323
Available-for-sale securities	18	40,765	29,382
Intangible assets	19	294,707	198,459
Property and equipment	20	1,690,150	1,433,990
Deferred tax assets	21	74,576	141,572
Other assets	22	1,040,233	898,914
Total assets		**69,614,988**	**68,358,187**
LIABILITIES			
Deposits from banks	23	138,149	2,166,016
Derivative financial liabilities	24	4,103	7,122
Due to customers	25	37,172,380	34,445,240
Borrowings	26	17,090,142	16,288,902
Subordinated debt	27	3,570,930	4,230,895
Current tax liabilities	28	37,846	29,619
Provisions	29	171,663	177,816
Other liabilities	30	329,803	369,569
Total liabilities		**58,515,016**	**57,715,179**
EQUITY			
Share capital	31	3,663,012	3,663,012
Share premium	31	2,776,745	2,776,745
Retained earnings	31	2,981,078	2,543,860
Revaluation reserve	31	35,273	15,527
Special banking risk reserves	31	1,643,864	1,643,864
Total equity		**11,099,972**	**10,643,008**
Total equity and liabilities		**69,614,988**	**68,358,187**

The accompanying notes on pages 5 to 70 form an integral part of these consolidated financial statements.

These consolidated financial statements were approved by the Executive Board on 21 March 2014 and signed on their behalf by:





Igor Anić
Member of the Executive Board

Svetlana Tolmačeva Dingarac
President of the Executive Board

Consolidated statement of changes in equity

	Share capital	Share premium	Retained earnings	Revaluation reserve	Special banking risk reserves	Total
At 1 January 2012	**3,663,012**	**2,776,745**	**1,748,696**	**7,571**	**1,643,864**	**9,839,888**
Total comprehensive income						
Profit	-	-	1,814,495	-	-	1,814,495
Other comprehensive income, net of tax						
Change in revaluation reserve from available-for-sale securities	-	-	-	7,956	-	7,956
Total other comprehensive income	**-**	**-**	**-**	**7,956**	**-**	**7,951**
Total comprehensive income	**-**	**-**	**1,814,495**	**7,956**	**-**	**1,822,451**
Transactions with owners of the Bank						
Distributed dividends	-	-	(1,019,331)	-	-	(1,019,331)
At 31 December 2012	**3,663,012**	**2,776,745**	**2,543,860**	**15,527**	**1,643,864**	**10,643,008**
At 1 January 2013	**3,663,012**	**2,776,745**	**2,543,860**	**15,527**	**1,643,864**	**10,643,008**
Total comprehensive income						
Profit	-	-	2,272,323	-	-	2,272,323
Other comprehensive income, net of tax						
Change in revaluation reserve from available-for-sale financial assets	-	-	-	9,874	-	9,874
Change in remeasurements of defined benefit plans (actuarial gains and losses)	-	-	-	9,872	-	9,872
Total other comprehensive income	**-**	**-**	**-**	**19,746**	**-**	**19,746**
Total comprehensive income	**-**	**-**	**2,272,323**	**19,746**	**-**	**2,292,069**
Transfer to revaluation reserve to - defined benefit plans	-	-	(8,426)	-	-	**(8,426)**
Transactions with owners of the Bank						
Distributed dividends	-	-	(1,826,679)	-	-	**(1,826,679)**
At 31 December 2013	**3,663,012**	**2,776,745**	**2,981,078**	**35,273**	**1,643,864**	**11,099,972**

The accompanying notes on pages 5 to 70 form an integral part
of these consolidated financial statements.

Consolidated statement of cash flows

	Year ended 31 December 2013	2012
Cash flows from operating activities:		
Profit	2,272,323	1,814,495
Adjustments for:		
Net impairment loss on financial assets	99,753	826,677
Depreciation and amortisation	294,494	290,470
Net interest income	(5,187,305)	(5,141,938)
Dividends on available-for-sale securities	(182)	(58)
Provisions	(7,431)	20,745
Net gains from the disposal of property and equipment	(6,921)	(13,037)
Net result from financial assets at fair value through profit or loss	17,224	42,018
Tax expense	328,834	155,108
Net cash flow from operating activities before changes in operating assets and liabilities	**(2,189,211)**	**(2,005,520)**
Changes in operating assets:		
Decrease/(Increase) in loans and advances to customers	464,044	(6,153,855)
(Increase) in other assets	(92,941)	(234,783)
Decrease in derivative financial assets	1,248	900
	372,351	**(6,387,738)**
Changes in operating liabilities:		
(Decrease)/Increase in deposits from banks	(2,027,867)	830,357
Increase in due to customers	2,748,117	5,236,790
(Decrease) in other liabilities	(39,766)	(11,272)
(Increase)/Decrease in derivative financial liabilities	(3,019)	3,659
	677,465	**6,059,534**
Interest received	**7,267,890**	**7,455,126**
Dividends received	**182**	**58**
Interest paid	**(2,088,886)**	**(2,250,790)**
Income tax paid	**(253,610)**	**(135,200)**
	4,925,576	**5,069,194**
Net cash from operating activities	**3,786,181**	**2,735,470**
Cash flow from investing activities:		
Proceeds from disposal of property and equipment	17,262	38,173
Purchase of property and equipment	(500,178)	(383,430)
Purchase of intangible assets	(170,175)	(58,140)
Net cash used in investment activity	**(653,091)**	**(403,397)**
Cash flow from financing activities:		
Increase in borrowings	7,262,809	4,736,180
Repayments of borrowings	(6,449,334)	(4,165,789)
Proceeds from issue of subordinated debt	1,544,794	1,673,666
Repayment of subordinated debt	(2,198,466)	(1,337,802)
Paid dividends	(1,826,679)	(1,019,330)
Net cash used in financing activities	**(1,666,876)**	**(113,075)**
Net increase in cash and cash equivalents	**1,466,214**	**2,218,997**
Cash and cash equivalents as at 1 January (Note 32)	**12,778,562**	**10,580,578**
Effects of exchange rate fluctuations on cash and cash equivalents	2,745	(21,014)
Cash and cash equivalents as at 31 December (Note 32)	**14,247,521**	**12,778,562**

The accompanying notes on pages 5 to 70 form an integral part of these consolidated financial statements.

1. General information

ProCredit Bank a.d. Beograd (the “Bank”) was established in 2001 as a Joint Stock Company and was issued with a banking licence by the National Bank of Yugoslavia (the “Central Bank”) on April 5, 2001.

In 2003, the Bank changed its name from Micro Finance Bank a.d. Beograd to ProCredit Bank a.d., Beograd.

The Bank is licensed in the Republic of Serbia to perform payment transfers, credit and deposit activities in the country and abroad, and in accordance with Republic of Serbia law, is to operate on principles of liquidity, security of placements and profitability.

The Bank established ProCredit Leasing d.o.o. Beograd as a limited liability company and registered it with the Agency for Legal Entities in Belgrade under register number 1973/2005 on 17 February 2005. The Bank is the 100% owner of ProCredit Leasing d.o.o. Beograd.

These consolidated financial statements comprise the Bank and its subsidiary ProCredit Leasing d.o.o. Beograd (collectively the “Group”).

The Group is controlled by ProCredit Holding AG & Co. KGaA Frankfurt am Main (“ProCredit Holding”, “PCH”), which owns 100.00% of shares.

As at 31 December 2013, the Group’s head office is located in Belgrade, Milutina Milankovića 17, and has 64 branches throughout Serbia.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied in all the years presented, unless otherwise stated.

A) Basis of preparation

The Group’s consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). These consolidated financial statements were approved for issue by the Executive Board on 21 March 2014.

The consolidated financial statements have been prepared under the historical cost convention except for available for sale financial assets and all derivative financial instruments, which have been measured at fair value. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank’s accounting policies. Areas involving a higher degree of judgment or complexity, or areas where assumptions are significant to the consolidated financial statements are disclosed in Note 2.

The consolidated financial statements are presented in RSD, which is the Group’s functional and presentational currency. The figures shown in the consolidated financial statements are stated in RSD thousand.

2.1.1 Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

The following new standards and interpretations became effective for the Group for annual periods beginning in or after 1 January 2013 and interim periods within those annual periods:

- Amendments to IFRS 1 – Government Loans (effective for annual periods beginning on or after 1 January 2013);
- Amendments to IFRS 7 - Disclosures - Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods);
- New standard IFRS 10 - Consolidated Financial Statements (effective for annual periods beginning on or after 1 January 2013);
- New standard IFRS 11- Joint Arrangements (effective for annual periods beginning on or after 1 January 2013);
- New standard IFRS 12- Disclosure of Interests in Other Entities (effective for annual periods beginning on or after 1 January 2013);
- New standard IFRS 13- Fair Value Measurement (effective prospectively for annual periods beginning on or after 1 January 2013);
- IFRS 10, IFRS 11 and IFRS 12 – Consolidated Financial Statements, Joint Arrangements and Disclosure o Interests in Other Entities: Transition Guidance;
- Amendments to IAS 1- Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after 1 July 2012);
- Amendments to IAS 19 - Employee Benefits (effective for annual periods beginning on or after 1 January 2013);
- Revised IAS 27 -Separate Financial Statements (effective for annual periods beginning on or after 1 January 2013);
- Revised IAS 28 -Investments in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2013);
- IFRIC 20 - Stripping Costs in the Production Phase of a Surface Mine (effective for annual periods beginning on or after 1 January 2013).

Except for the changes set below, the Group has consistently applied the accounting policies as set in Note 2(D) - 2(X) to all periods presented in these financial statements:

- ***Subsidiaries, including structured entities***

As a result of IFRS 10, the Group has changed its accounting policy for determining whether it has control over and consequently whether it consolidates other entities. IFRS 10 introduces a new control model that focuses on whether the Group has power over an investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect those returns.

In accordance with the transitional provisions of IFRS 10, the Group reassessed its control conclusions as of 1 January 2013.

The change did not have any impact on the Group’s financial statements.

- ***Interests in other entities***

As a result of IFRS 12, the Group has considered expansion of disclosures about its interests in subsidiaries and involvement with unconsolidated structured entities. The change did not have a material impact on the Group’s financial statements.

- ***Fair value measurement***

In accordance with the transitional provisions of IFRS 13, the Group has applied the new definition of fair value, as set out in Note 2 (E) (*/vi/)*, prospectively. The change had no significant impact on the measurements of the Group's assets and liabilities, but the Group has included new disclosures in the financial statements, which are required under IFRS 13. These new disclosure requirements are not included in the comparative information. However, to the extent that disclosures were required by other standards before the effective date of IFRS 13, the Group has provided the relevant comparative disclosures under those standards.

- ***Offsetting financial assets and financial liabilities***

As a result of the amendments to IFRS 7, the Bank has expanded disclosures about offsetting financial assets and financial liabilities (see Note 2 (E) (*iv/)*.

- ***Presentation of items of OCI***

As a result of the amendments to IAS 1, the Group has modified the presentation of items of other comprehensive income in its statement of profit or loss and other comprehensive income, to present items that would be reclassified to profit or loss in the future separately from those that would never be. Comparative information has been re-presented on the same basis.

(b) *New and amended standards and interpretations mandatory for the first time for the financial year beginning 1 January 2014, and which the Group has not early adopted.*

- IFRS 9 – Financial Instruments (Removes the mandatory effective date for IFRS 9 of 1 January 2015; New tentative decision: effective date 1 January 2018);

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. IFRS 9 (2010) introduces additions relating to financial liabilities. IFRS 9 (2013) introduces new requirements for hedge accounting. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets.

The IFRS 9 (2009) requirements represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortised cost and fair value. A financial asset would be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories of held-to-maturity, available-for-sale and loans and receivables. For an investment in an equity instrument that is not held for trading, the standard permits an irrevocable election, on initial recognition, on an individual share-by-share basis, to present all fair value changes from the investment in OCI. No amount recognised in OCI would ever be reclassified to profit or loss at a later date. However, dividends on such investments would be recognised in profit or loss, rather than OCI, unless they clearly represent a partial recovery of the cost of the investment. Investments in equity instruments in respect of which an entity does not elect to present fair value changes in OCI would be measured at fair value with changes in fair value recognised in profit or loss.

The standard requires derivatives embedded in contracts with a host that is a financial asset in the scope of the standard not to be separated; instead, the hybrid financial instrument is assessed in its entirety for whether it should be measured at amortised cost or fair value.

IFRS 9 (2010) introduces a new requirement in respect of financial liabilities designated under the fair value option to generally present fair value changes that are attributable to the liability's credit risk in OCI rather than in profit or loss. Apart from this change, IFRS 9 (2010) largely carries forward without substantive amendment the guidance on classification and measurement of financial liabilities from IAS 39.

IFRS 9 (2013) introduces new requirements for hedge accounting that align hedge accounting more closely with risk management. The requirements also establish a more principles-based approach to hedge accounting and address inconsistencies and weaknesses in the hedge accounting model in IAS 39.

The mandatory effective date of IFRS 9 is not specified but will be determined when the outstanding phases are finalised. However, application of IFRS 9 is permitted.

The Group has started the process of evaluating potential effect of this standard but is awaiting finalisation of the limited amendments before the evaluation can be completed. Given the nature of the Group's operations, this standard is expected to have a pervasive impact on the Group's financial statements.

- Amendments to IFRS 10, IFRS 12 and IAS 27- Investment Entities (effective for annual periods beginning on or after 1 January 2014);
- Amendments to IAS 32- Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2014);
- Amendments to IAS 32 "Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities" (effective for annual periods beginning on or after 1 January 2014);
- Amendments to IAS 36 – Recoverable amount Disclosures for Non-Financial Assets (effective for annual periods beginning on or after 1 January 2014);
- Amendments to IAS 36 "Recoverable Amount Disclosures for Non-Financial Assets" will have an impact on the disclosure of financial statements (effective for annual periods beginning on or after 1 January 2014);
- Amendments to IAS 39 – Novation of Derivatives and Continuation of Hedge Accounting (effective for annual periods beginning on or after 1 January 2014);
- IFRIC 21 - Levies (effective for annual periods beginning on or after 1 January 2014).

Management of the Group is in the process of evaluating potential effects of above mentioned changes.

B) Consolidation

Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights.

The Bank has only one 100% owned subsidiary – ProCredit Leasing d.o.o. Beograd.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. The accounting policies of subsidiary have been changed where necessary to ensure consistency with the policies adopted by the Group.

C) Going concern

The financial statements are prepared in accordance with the going concern concept, which assumes that the Group will continue its operation, in the foreseeable future.

D) Foreign currency translation

(a) Transactions and balances

Transactions in foreign currency are translated into the functional currency of the Group using the spot exchange rates at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss.

Monetary assets and liabilities denominated in foreign currencies which are stated at cost, are translated at the spot exchange rate at reporting date. Foreign exchange differences arising on translation are recognized in the statement of profit and loss.

Non-monetary assets denominated in foreign currency are translated at the spot exchange rate at the historic date.

(b) Exchange rates

The official exchange rates as at 31 December 2013 and 2012 were as follows:

	2013	**2012**
USD	83.1282	86.1763
EUR	114.6421	113.7183
CHF	93.5472	94.1922

E) Financial assets and financial liabilities

(i) Recognition

The Group initially recognizes loans and advances, deposits, debt securities issued and subordinated liabilities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognized on the trade date, which is the date on which the Group becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

(ii) Classification

Financial assets

The Group classifies its financial assets into of the following categories: loans and receivables, held to maturity, at fair value through profit or loss and available-for-sale financial assets. Management determines the classification of its investments at initial recognition.

Classes of financial assets

The Group classifies the financial instruments into classes that reflect the nature of instruments and take into account the characteristics of those financial instruments. The classification made can be seen in the table below:

Category of financial assets per IAS 39	Class determined by the Group	Subclass
Financial assets at fair value through profit or loss	Derivative financial assets	Derivatives – non-hedging
Loans and receivables	Loans and advances to banks	Banks within the Group
		OECD banks
		Domestic and non-OECD banks
	Loans and advances to customers	Business
		Agricultural
		Housing
		Finance leases
		Consumer
		Other
Available for sale financial assets	Available for sale financial assets	Listed
	Other financial instruments	Unlisted

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading unless they are designated as hedging instruments.

Financial assets and financial liabilities are designated at fair value through profit or loss when doing so significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortised cost for loans and advances to customers or banks and debt securities in issue.

Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the profit and loss. Financial assets at fair value through profit or loss are subsequently carried at fair value.

Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss are included in the profit and loss in the period in which they arise.

Interest income and expense and dividend income and expenses on financial assets held for trading are included in ‘Net interest income’ or ‘Dividend income’, respectively.

Gains and losses arising from changes in the fair value of derivatives that are managed in conjunction with designated financial assets or financial liabilities are included in “Net result from financial assets at fair value through profit or loss”.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. All loans and advances are initially recognised at fair value. All loans and advances are recognised when cash is advanced to borrowers. After initial recognition, these are subsequently measured at amortised costs using the effective interest rate method. Amortised cost is calculated by taking into account any issue costs and any discount or premium on settlement.

(c) Available-for-sale financial assets

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Regular-way purchases and sales of financial assets at fair value through profit or loss, held to maturity and available for sale are recognised on trade-date – i.e. the date on which the Group commits to purchase or sell the asset.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in other comprehensive income until the financial asset is derecognised or impaired. At this time, the cumulative gain or loss previously recognised in other comprehensive income is recognised in profit or loss. However, interest calculated using the effective interest method and foreign currency gains and losses on monetary assets classified as available for sale are recognised in the profit or loss.

The fair value of investments quoted in an active market is based on current supply (financial assets) or demand (financial liabilities). If the market for a financial asset is inactive, the Bank shall determine fair value by using valuation techniques. This includes application of recent transactions among independent parties, analysis of discounted cash flows and other valuation techniques used by market participants. The valuation models reflect current market conditions on the date of valuation, whereby such conditions are not necessarily applicable for the period before or after the valuation date.

On the date of consolidated statement of financial position, the management of the Group revises those models to make sure they faithfully represent current market conditions, including relative market liquidity and interest margins.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost.

Financial liabilities

Financial liabilities that are not classified as financial liabilities at fair value through profit or loss fall into category “other liabilities” and are measured at amortised cost. Financial liabilities measured at amortised cost are deposits from banks, due to customers, borrowings and subordinated debt.

The Group classifies the financial instruments into classes that reflect the nature of information and take into account the characteristics of those financial instruments. The classification made can be seen in the table below:

<table>
<tr><th colspan="2">Category per IAS 39</th><th>Class determined by the Group</th></tr>
<tr><td rowspan="5">Financial liabilities</td><td>Financial liabilities at fair value through profit or loss</td><td>Derivative financial liabilities</td></tr>
<tr><td rowspan="4">Financial liabilities at amortised cost</td><td>Deposits from banks</td></tr>
<tr><td>Due to customers</td></tr>
<tr><td>Other borrowed funds</td></tr>
<tr><td>Subordinated debt</td></tr>
<tr><td rowspan="2">Off-balance exposure</td><td colspan="2">Loan commitments</td></tr>
<tr><td colspan="2">Guarantees, acceptances and other financial liabilities</td></tr>
</table>

(iii) Derecognition

Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

The Group enters into transactions whereby it transfers assets recognised on its consolidated statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale and repurchase transactions.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale and repurchase transactions because the Group retains all or substantially all of the risks and rewards of ownership of such assets.

In transactions in which the Group neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the Group retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

The Group securitises various loans and advances to customers and investment securities, which generally result in the sale of these assets to unconsolidated securitisation vehicles and in the Group transferring substantially all of the risks and rewards of ownership. The securitisation vehicles in turn issue securities to investors. Interests in the securitised financial assets may be retained in the form of senior or subordinated tranches, interest-only strips or other residual interests (retained interests). Retained interests are primarily recorded in available-for-sale investment securities and carried at fair value. Gains or losses on securitisation depend in part on the carrying amount of the transferred financial assets, allocated between the financial assets derecognised and the retained interests based on their relative fair values at the date of the transfer. Gains or losses on securitisation are recorded in other revenue.

Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

(iv) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group has a legal right to set off the amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions.

(v) Amortised cost measurement

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

(vi) Fair value measurement

Policy applicable from 1 January 2013

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Group recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

Policy applicable before 1 January 2013

'Fair value' is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, then the Group establishes fair value using a valuation technique. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Group, incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price – i.e. the fair value of the consideration given or received. However, in some cases the initial estimate of fair value of a financial instrument on initial recognition may be different from its transaction price. If this estimated fair value is evidenced by comparison with other observable current market transactions in the same instrument (without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets, then the difference is recognized in profit or loss on initial recognition of the instrument. In other cases, the fair value at initial recognition is considered to be the transaction price and the difference is not recognized in profit or loss immediately but is recognized over the life of the instrument on an appropriate basis or when the instrument is redeemed, transferred or sold, or the fair value becomes observable.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price. Where the Group has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or ask price adjustment is applied only to the net open position as appropriate.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

(vii) Impairment of financial assets carried at amortised cost

The Group assesses at each of the consolidated statement of financial position whether there is objective evidence that a financial asset or group of financial assets are impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that a loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (for example equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral; and
- Downgrading below investment grade level.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the group determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated cash flows (excluding future credit losses that have not been incurred) discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit and loss.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the group's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). These characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the group to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the profit and loss in impairment charge for credit losses.

(viii) Impairment of financial assets classified as available-for-sale

The Group assesses at each date of the consolidated statement of financial position whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in the recognition of an impairment loss. If any such evidence exists for available-for sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is reclassified from equity to profit and loss. Changes in impairment attributable to application of the effective interest method are reflected as a component of interest income.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, then the impairment loss is reversed through profit and loss; otherwise, any increase in the fair value of an impaired available-for-sale equity investment is always recognised in other comprehensive income.

F) Derivative financial instruments and hedge accounting

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Gains and losses arising from changes in fair value of derivatives are included in "net result from derivatives".

The Group had only economic hedging transactions during the reporting period.

G) Interest

Interest income and expense for all interest-bearing financial instruments are recognised within "interest income" and "interest expense" in the profit and loss using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The "effective interest rate" is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset of financial liability (or, when appropriate, a shorter period) to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows and considers all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all transaction costs, fees and points paid or received between parties to the contract that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the effective interest rate for the purpose of measuring the impairment loss.

Interest income and expense presented in the statement of profit or loss and other comprehensive income include:

- interest on financial assets and financial liabilities measured at amortized cost calculated on an effective interest bases;
- interest on available-for-sale investment securities calculated on an effective interest basis.

H) Fee and commission

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the measurement of the effective interest rate (see Note 5).

Other fees and commission income are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fees are recognised on a straight-line basis over the commitment period.

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

I) Net trading income

'Net trading income' comprises foreign exchange differences.

J) Net result from derivatives

"Net result from derivatives" relates to gains and losses from fair value changes for financial assets at fair value through profit or loss (derivatives).

L) Intangible assets

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Software acquired by the Group is measured at cost less accumulated amortisation and any accumulated impairment losses.

These costs are amortised on the basis of the expected useful lives and the period licenses are issued for. Software has a maximum expected useful life of 5 years. Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

M) Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses.

Historical cost includes expenditure that is directly attributable to acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to other operating expenses during the financial period in which they are incurred.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

If significant parts of an item of property or equipment have different useful lives, then they are accounted for as separate items (major components) of property and equipment.

Depreciation of fixed assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

- Buildings – 40 years
- Leasehold improvements - shortest of 10 years or leasehold contract duration,
- Motor vehicles - 5 years,
- Furniture - 10 years,
- Computers - 5 years.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each date of consolidated statement of financial position.

Any gain or loss on disposals of an item of property and equipment is determined as a difference between the net proceeds from disposal and carrying amount of the item. These are included in other income in profit or loss.

N) Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than investment properties and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.
For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or CGUs.

The ‘recoverable amount’ of an asset or CGU is the greater of its value in use and its fair value less costs to sell. ‘Value in use’ is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised for the amount by which the asset’s carrying amount exceeds its recoverable amount.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

O) Leases

(a) A Group is the lessee

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

The leases entered into by the Group are primarily operating leases. The total payments made under operating leases are charged to other operating expenses in the profit or loss on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Assets held by the Group under leases that transfer to the Group substantially all of the risks and rewards of ownership are classified as finance leases. The leased asset is initially measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

(*b) A Group company is the lessor*

When assets are held subject to a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Net investment in lease is recognised and presented within loans and advances to customers (see Note 18). Lease income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return.

P) Cash and cash equivalents

‘Cash and cash equivalents’ include notes and coins on hand, unrestricted balances held with the National bank of Serbia and highly liquid financial assets with original maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.
Cash and cash equivalents are carried at amortised cost in the consolidated statement of financial position.

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than a three-month maturity from the date of acquisition, including cash and non-restricted balances with the National bank of Serbia , treasury bills and other eligible bills, loans and advances to banks, amounts due from other banks and short-term government securities.

Q) Provisions

Provisions for legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any item included in the same class of obligations may be small.

Provisions are measured twice a year at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

R) Financial guarantees and loan commitments

“Financial guarantees” are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

‘Loan commitments’ are firm commitments to provide credit under pre-specified terms and conditions.

Financial guarantees and loan commitments are initially recognised in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the Group’s liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the profit or loss the fee income earned on a straight line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the date of consolidated statement of financial position. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of the management.

Any increase in the liability relating to financial guarantees and loan commitments is included in the profit or loss.

S) Employee benefits

(a) Pension obligations

The Group operates a defined contribution pension plan. The Group companies pay contributions to publicly administered pension insurance plans on a mandatory basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) Other employee benefits

The Group companies provide termination benefits, as required by labour laws in Serbia. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and/or the completion of a minimum service period and is calculated as three monthly average salaries in Serbia in the month before employee retirement. The expected costs of these benefits are accrued over the period of employment. The defined benefit obligation is valued annually by independent qualified actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability.

The assumptions used by the actuary to calculate the retirement benefits are as follows:

- Three average salaries in November 2013 for the Serbian economy as a whole;
- Estimated annual increase in salaries of 3%;
- Discounting rate of 10% and
- Fluctuation rate of -1%.

T) Current and deferred income tax

a) Current income tax

Income tax represents the amount calculated and paid to the tax authorities, based on legislation in the Republic of Serbia. Estimated monthly instalments are calculated by the tax authority and paid in advance on a monthly basis.

Income tax at the rate of 15% (2012: 10%) is payable based on the profit disclosed in the Tax return. In order to arrive at the taxable profit, the accounting profit is adjusted for certain permanent differences and reduced for certain investments made during the year. The tax return is submitted to the tax authorities 180 days after tax period observed.

The entities included in the Group file separate tax returns.

According to Serbian tax law, the members of the Group is entitled to tax credits, based on the amounts invested in property and equipment and the number of new employees hired, and to use these credits to reduce the current income tax liability. Tax credits for new employees hired can be used by the members of the Group only in the year when declared. Tax credits for new investments in property and equipment used for the prevailing business activity and all other activities inscribed by the founding documentation, amounts 20% of the paid investment and can be carried forward for a period of 10 years and offset with the future tax liabilities. Tax liability could be offset by 33% of tax credit.

b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the date of consolidated statement of financial position and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets and liabilities as at 31 December 2013 are measured by using 15%.

The principal temporary differences arise from depreciation of property and equipment, revaluation of certain financial assets and liabilities including derivative contracts, provisions for pensions and other post-retirement benefits and tax losses carried forward. The rates enacted or substantively enacted at the date of consolidated statement of financial position are used to determine deferred income tax.

Deferred tax assets are recognised for all deductible temporary differences, unused tax assets and unused tax losses, to the extent that it is probable that future taxable profits will be sufficient to enable realisation (utilisation) of deductible temporary differences, unused tax assets and unused tax liabilities.

Deferred tax related to fair value re-measurement of available-for-sale investments, which are charged or credited directly to other comprehensive income is also credited or charged directly to other comprehensive income and subsequently recognised in the profit and loss together with the deferred gain or loss.

U) Borrowings and subordinated liabilities

Borrowings and subordinated liabilities are recognised initially at fair value net of transaction costs incurred. Borrowings and subordinated liabilities are subsequently measured at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the profit and loss over the period of the borrowings using the effective interest method.

V) Share capital and reserves

(a) Share issue costs

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(b) Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Bank's shareholders.

Dividends for the year that are declared after the date of consolidated statement of financial position are dealt with in the subsequent events note.

W) Repossessed property

In certain circumstances, property is repossessed following the foreclosure of loans that are in default. Repossessed properties are measured at the lower of the carrying amount and fair value less costs to sell and are reported in "other assets".

A repossessed property is expected to be sold within one year period, except if there is a delay caused by events or circumstances beyond the entity's controls and there is sufficient evidence that the entity remains committed to its plan to sell the asset. The maximum period of holding repossessed property on the Group's balance sheet is 5 years. After 5 years the Group has to write-off the amounts.

In case the Management decides to use the item in the course of the Group's business operations, the item has to be reclassified into the respective Property and equipment account.

In case the Management decides to rent the item for a period longer than 3 years, the item has to be reclassified into the investment property.

X) Critical accounting estimates and judgments

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Allowances for impairment losses on loans and advances

The Group reviews its loan portfolio to assess impairment at least on a monthly basis. In determining whether an impairment loss should be recorded in the profit and loss, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the Group.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(b) Provisions

Provisions in general are highly judgmental, especially in the cases of legal disputes. The Group assesses the probability of an adverse event as a result of a past event to happen and if the probability is evaluated to be more than fifty per cent, the Group fully provides for the total amount of the liability. The Group is rather prudent in these assessments, but due to the high level of uncertainty, in some cases the evaluation may not prove to be in line with the eventual outcome of the case.

3. Financial risk management

The Group’s activities are exposed to a variety of financial risks. This exposure demands organised activities related to analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Group’s aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects of risks on the Group’s financial performance.

The Group’s risk management procedures are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Group regularly reviews its risk management procedures and systems to reflect changes in markets, products, legislature and emerging best practice.

Risk management is carried out by the Group's Financial Risk Management and Credit Risk, specialised risk committees under risk strategy and policies approved by the Board of Directors. The Risk Management Department identifies, evaluate financial risks and makes proposals to the risk committees to hedge those risks in close co-operation with the Group's business units. The Board of Directors provides principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments. In addition, internal audit is responsible for the independent review of risk management and the control environment. The most important types of risk are:

- Credit risk,
- Liquidity and funding risk,
- Market risks (including currency risk, interest rate and other market price related risks),
- Operational and other risks.

A) Management of the Overall Risk Profile

The Group is not allowed to take on more risk than it is capable of bearing. This rule is put into operation using specified limits for all types of risks and a risk bearing capacity model which stipulates that at all times the predefined economic Tier I + II capital has to be available to cover potential losses.

The capital management of the Group has the following objectives:

- Full compliance with external capital requirements set by the regulator of the banking sector in the jurisdictions where the Group entities operate.
- Meeting the internally defined minimum capital adequacy requirements.

The capital management of the ProCredit Bank is governed by the Group Policy on Capital Management and the Group Policy on Risk Bearing Capacity. To ensure that the above stated objectives are met at all times, the Bank uses four indicators. Aside from regulatory and Basel II capital ratios, the leverage ratio and risk bearing capacity are monitored on a monthly basis by the Assets and Liabilities Committee (ALCO).

A A.1. Capital Adequacy

External minimum capital requirements are imposed and monitored by the local banking supervision authorities – the National Bank of Serbia. Local supervision is based on stand-alone financial statements according to local accounting rules.

The Group's objectives when managing capital can be set down as follows:

- To comply with the capital requirements set by the National Bank of Serbia
- To comply with the capital requirements set by international financial institutions according to long term loan contracts
- To ensure expected growth stability and development and strong basis for further progress of the Group's business

The National Bank of Serbia has set requirements applicable for a banking group as follows:

- Banking group shall be required to maintain its capital adequacy ratio at the level of at least 12% or the level set by the National Bank of Serbia.
- Total open foreign currency position of a banking group, as the sum of total net open foreign currency position and absolute value of net open position in gold, may not exceed 20% of the capital of such banking group.
- The ultimate parent company shall calculate capital requirement for foreign exchange risk as a sum of individual capital requirements for this risk of all members of the banking group whose sum of total net open foreign currency position and absolute value of that position in gold exceeds 2% of their capital.

Based on the preliminary calculation the Group is within the set limits. The final calculation of prescribed limits will be conducted by 30 April 2014.

Capital adequacy is addressed in detail during the process of business planning. The National Bank of Serbia is kept informed of the Group's and the Bank's capital adequacy ratio on a quarterly basis.

The Group was in compliance with all prescribed limits throughout the year.

Since ProCredit Leasing d.o.o. Beograd influences the regulatory requirements for a banking group set by the National Bank of Serbia only with its equity calculated prescribed limits will not significantly differ from those calculated for the Bank alone.

In accordance with the Law on Financial Leasing, for the performance of finance lease transactions the object of which is a movable good, the pecuniary portion of the initial capital of the Company cannot be lower than the dinar equivalent of EUR 500 thousand at the official middle exchange rate of the National Bank of Serbia as at the payment date. For the performance of finance lease transactions the object of which is an immovable good, the pecuniary portion of the initial capital of the lessor cannot be lower than the dinar equivalent of EUR 5,000 thousand at the official middle exchange rate as at the payment date. ProCredit Leasing d.o.o. Beograd has met threshold of EUR 500 thousand of the initial capital (the Company does not finance lease of properties). Aside capital census, the

National Bank of Serbia did not set any other regulatory requirements for financial lease companies and regulatory requirements applicable for the banking sector are set out below.

The National Bank of Serbia requires that every bank, at any moment, has a minimum nominal amount of EUR 10 million (at the official average exchange rate) in share capital and a capital adequacy ratio of minimum 12%.

The Bank's regulatory capital as managed by its National Bank Treasury is divided into two tiers:

- Tier 1 capital (core capital) and
- Tier 2 capital (supplementary capital).

Tier 1 capital consists of:

- The paid up ordinary and preference share capital.
- Premiums realized on issuance of ordinary and preference shares.
- All types of the Bank's reserves allocated from earnings after deduction of taxes.
- Retained earnings from previous years, as well as from the current year if the Bank's obtains approval from National bank of Serbia.

When calculating Tier 1 capital, the Bank is obliged to reduce sum of Tier 1 capital elements for the following categories:

- Losses from previous years;
- Current year's losses;
- Intangible assets;
- Acquired Bank own ordinary and preferential shares, excluding cumulative preferential shares, in the amount of their book value (par value increased by share premium);
- Ordinary and preferential shares of the bank, excluding cumulative preferential shares, which the bank received in pledge in the amount equal to the value of receivables secured by pledge of shares, or par value of shares received in pledge increased by relevant share premium, whichever is lower;
- Regulatory value adjustment to international financial reporting standards (IFRS) and/or international accounting standards (IAS).

Regulatory value adjustments to IFRS/IAS referred to in previous paragraph include:
- Unrealized losses on securities available for sale;
- Other net negative revaluation reserves that do not refer to deductibles from core capital or elements included in the Bank's supplementary capital;
- Gains on bank liabilities measured at fair value reduced due to the change in the Bank's credit assessment;
- Amount of required reserve for estimated losses on balance-sheet assets and off-balance sheet items of the Bank.

Tier 2 capital consists of:
- Paid-in share capital against cumulative preferential shares of the Bank;
- Part of positive revaluation reserves of the Bank;
- Hybrid capital instruments;
- Subordinated liabilities (if they meet the following conditions: they are fully paid-up; their agreed maturity is at least five years from the date of payment; repayment to creditors or repurchase of these liabilities is not possible before the agreed maturity date, except in the case of conversion of these liabilities into bank shares other than cumulative preferential shares; they are available for the coverage of losses only in the event of bankruptcy or liquidation of the bank, in other words they are not available for coverage of losses incurred in the course of regular operation of the bank; in the event of bankruptcy or liquidation of the bank, these liabilities may be settled only after the settlement of all other non-subordinated obligations, but before the bank shareholders and owners of hybrid instruments issued by the bank; they are not backed by any collateral issued by the bank or by its related party; the bank's creditor is not at the same time the bank's borrower in respect of its subordinated claim).

The amount of subordinated liability of the Bank included in supplementary capital is reduced by 20% per year over the last five years before maturity of that liability and hence subordinated liabilities are not to be included in supplementary capital in the last year before their maturity.

When calculating Tier 2 capital, the Bank is obliged to reduce sum of Tier 2 capital elements for the following categories:
- Book value of acquired Bank's own cumulative preferential shares;
- Lower of cumulative preferential shares of the bank which the bank received in pledge in the amount equal to the value of receivables secured by pledge of these shares, or par value of shares received in pledge increased by corresponding share premium
- Balance sheet or off balance sheet receivables secured by hybrid instrument or subordinated liability to the extent to which this instruments/liabilities are included in tier 2 capital.

The capital of the Bank shall be the sum total of its Tier 1 and Tier 2 minus following deductions:
- Direct and indirect investment in banks and other financial sector entities that exceed 10% of the capital of such banks and/or other financial sector entities;
- Investment in hybrid instruments and subordinated obligation of other banks and entities in financial sector in which Bank has direct and indirect investment that exceed 10% of the capital of such banks and/or other financial sector entities;
- Total amount of direct and indirect investment in banks and other financial sector entities in the amount of up to 10% of the capital of their capital, as well as investment in their hybrid instruments and subordinated liabilities that exceed 10% of the sum of tier 1 and tier 2 capital of the Bank;
- The amount by which qualified participation in non-financial sector entities has been exceeded;
- The amount of exposure to free delivery if the contra-party failed to fulfil its obligation within four working days;

- Receivables and potential liabilities towards persons related to the Bank or employees in the bank which the Bank has negotiated under the terms that are more favourable than the terms negotiated with other parties that are not related to the Bank and are not employees of the Bank.

Deductibles referred to in previous paragraph shall be deducted from core and supplementary capital of the bank as follows:
- 50% of their total amount shall be deducted from core capital;
- 50% of their total amount shall be deducted from supplementary capital.

There are restrictions for certain elements of the Bank's capital as follows:
- Core capital shall represent at least 50% of the capital;
- Subordinated liabilities included in supplementary capital shall not exceed 50% of core capital;
- Total amount of hybrid instruments, excluding hybrid instruments which due to deteriorating financial condition of the Bank may be converted into its shares (except cumulative preferential shares), shall not exceed 35% of the Bank's core capital;
- Total amount of all hybrid instruments shall not exceed 50% of the Bank's core capital.

The Bank may treat part of required reserve for estimated losses on balance sheet assets and off-balance sheet items as deductable item from capital of the Bank, instead as deductable item from Tier 1 capital, as follows:
- Till 31 December 2011 – 100% of total amount;
- Till 31 December 2012 – 75% of total amount;
- Till 31 December 2013 – 50% of total amount.

Table below shows the capital elements and calculation of the capital adequacy ratio as per regulatory requirements for the Bank for years ended on 31 December.

Indicators	**Prescribed limits**	**31 December 2013**	**31 December 2012**
	10 million	TEUR	TEUR
Regulatory capital	EUR	91,425	90,610
Capital adequacy Ratio	min 12%	18.43%	17.67%
The Bank's total investment in non-financial sector entities and fixed assets of the Bank	max 60%	22.02%	19.79%
Aggregate exposure of the Bank to persons related to the Bank	max 20%	0.62%	0.39%
Exposure of the Bank to a person related to the Bank	max 5%	0.23%	0.10%
The sum of large exposures of the Bank	max 400%	0.62%	0.39%
Exposure of the Bank to single person or a group of related persons	max 25%	0.23%	0.1%
The Bank's investment in a single non-financial sector entity	max 10%	0%	0%
The Bank's investment in financial sector entities		1.61%	1.52%
Liquidity ratios:			
- last month of the reporting period	min 1	2.67	1.96
Narrow liquidity ratio	min 0.7	2.50	
Foreign exchange risk ratio	max 20%	1.85%	1.12%

The Bank was in compliance with all prescribed limits throughout the year.

B) Credit risk

The Group is exposed to credit risk, which is the risk that a counterparty will be unable or unwilling to pay the debt amounts in full when due. The Group's primary exposure to credit risk arises through its loans to customers.

In order to keep the credit risks at an acceptable level the Group:

- Evaluates the creditworthiness of each client individually including his/her exposure to loans and off-balance liabilities;
- Analyses risks arising from the investment which is the purpose of the loan;
- Determines limits for credit exposure to its clients;
- Approves loans only to creditworthy clients and secures appropriate collateral;
- Separates the process of maintaining client relationships from the process of assessing client's creditworthiness; this applies to all loans to medium and large clients;
- Takes mandatory down-payments of 20% to 30% from clients for each finance leasing contract as a cushion against depreciation in the value of the leased object.

To control the credit risk exposure, the Bank has defined a prudent lending policy. The clients that are subjects of the lending process are carefully analysed. Loan approval decisions are based on of the client's loan repayment capability and appropriate means of collateral as loan coverage. All clients must fulfil the following criteria:

- Have a stable and profitable business (in case of legal entities, entrepreneurs and agricultural producers),
- Be capable of meeting future loan repayments (applies to all clients),
- Should the Bank identify maturity mismatches between certain types of assets and liabilities on the client's statement of financial position , this mismatch has to be justifiable (in case of legal entities, entrepreneurs and agricultural producers),
- Cash flow does not indicate potential problems (in case of legal entities, entrepreneurs and agricultural producers),
- Good credit record and repayment history with ProCredit Bank and/or other banks (applies to all clients),
- Provide adequate collateral (applies to all clients).
- Have adequate business management and organisation (in case of legal entities, entrepreneurs and agricultural producers).

In the light of the impact of the global financial crisis on the liquidity and financial position of the Group's borrowers, the Group has tightened the creditworthiness rules for clients. The Group applies the maximum exposure, which includes all loan instalments versus client's monthly profitability (net cash flow), in a range from 50 to 70% (except in case of short term loans).

B.2. Loan Loss Classification

The Group has developed procedures for the classification of its loans and off-balance exposures, regarding the degree of credit risk associated with clients. In addition, two methodologies for loan loss classification standards have been developed to satisfy the requirements of:

1. Laws and regulations enacted by the National Bank of Serbia (NBS); and
2. Internal loan loss provisioning policies.

Calculation of allowances for impairment provisions against potential losses for ProCredit Bank

The Bank calculates allowances for loan impairment monthly for the portfolio of loans subject to automatic processing of group provisioning, and for individual impairments – i.e. those determined at individual client level.

In case of group provisioning (at portfolio level) a general weighting, calculated for each risk class, is applied automatically; whereas individual impairment is calculated and determined at client level in accordance with the Bank's specific risk exposure.

Total impairment of on-balance assets is the sum of impairments calculated by risk class weighting for accounts receivable (calculated provisions) and the amount determined for individual impairments.

For off-balance exposures, the Bank determines provisions based on an internal methodology which defines the provision level based on the particular type of off-balance exposure.

At the time of loan approval, the loan will be allocated (in line with Bank classification) to class I (loan is not in arrears at the time of approval). Credit rules and credit risk management policy allow lending only to clients with good business results and who satisfy strict eligibility criteria defined by the Bank and its shareholders; thus ensuring that rigid and prudent credit risk assessments are performed ex-ante for all clients.

On-balance items, which according to general rules should change risk class due to the number of days in arrears, will not be reclassified if the amount in arrears in less than EUR 2.00.

Group /individual provisioning

Group provisions are calculated by applying the general weighting determined for each internal risk class, for both the client and related parties, in line with the contamination principle for outstanding amounts, while individual provisions are determined per client in line with prescribed criteria.

On a group basis, loans are classified into specific internal risk classes for each party, according to the number of days in arrears, and the provisions are determined by applying a general weighting to each risk class based on the definitions below. General weighting is defined according to an internal methodology based on the migration analysis which takes into account historical developments in the portfolio. The weighting indicates the present likelihood that a certain party's risk status (risk of non-settlement) will change and is defined in compliance with internal policy. General provisioning weighting over the preceding period and the equivalent of the Bank's average historical losses is the weighting applied for a large number of parties, i.e. it is defined at portfolio level as an average volume.

Rules for calculation of the provisioning basis

In line with internal policy, provisions for losses allocated to loans, credit cards and authorised current account overdrafts, bill of exchange protests, private client account fees, account transaction fees, i.e. those of the Bank's on-balance assets which are exposed to credit risk, and off-balance exposures, which could potentially be at risk.

The provisioning basis includes:

- Principal amount not yet due
- Due principal and interest, booked penalty interest
- Accrued interest
- Authorised current account overdrafts – utilised portion of the approved limit (receivables on the consolidated statement of financial position), as well as unauthorised overdraft amounts

- Credit cards – utilised portion of the approved limit (receivables on the consolidated statement of financial position), as well as unauthorised overdraft amounts
- Receivables on the consolidated statement of financial position originating from off-balance assets, bill of exchange letters of guarantee protests and paid letters of credit
- Account transaction fees, and private individual account fees

Receivables as the basis for calculation of provisions against loan losses are reduced by the deposit amount.

The risk classification of the party/client relies on the following principles:

- The principle of the number of days in arrears per client's party
- Contamination principle, i.e. the party/client and all related parties are monitored, and accordingly all parties are allocated to the lowest risk class a related party has. If the client can be located in more than one group of related parties, the client will be allocated to the lowest class which a party in any one the groups of related parties has, but will not transfer this class to another party which is not located in the group bestowing the lower risk class on this client.
- The portfolio of restructured loans is classified differently from the rest of the portfolio. The breakdown of restructured loans includes following categories: standard, watch and impaired, based on criteria defined in a special document "rules for restructured credit exposures". For all three restructured loans categories provided they are not in arrears or are in arrears of up to 30 days, larger LLP percentages compared to the other portfolio without arrears or with arrears of up to 30 days are applied in the calculation
- For legal entities deleted from the register, in bankruptcy or liquidation, as well as for entrepreneurs deleted from the registry, provided they are not in arrears over 30 days, larger LLP ponders compared to the other portfolio without arrears or with arrears of up to 30 days are applied in the calculation.

PROVISIONING WEIGHTS:

General/group classification	**Party class**	**Provisioning weight 2013**	**Provisioning weight 2012**
No repayment arrears or arrears up to 30 days	I	1.20%	1.10%
Restructured loan – standard, arrears up to 30 days	Standard	4%	4%
Restructured loan – watch, arrears up to 30 days	Watch	13%	13%
Restructured loan – impaired, arrears up to 30 days	Impaired	16%	16%
Entrepreneurs - bankruptcy proceedings, arrears up to 30 days	I	7%	5%
Legal entities - bankruptcy proceedings, arrears up to 30 days	I	50%	50%
Arrears between 31 and 90 days	II	50%	50%
Arrears between 91 and 180 days	III	75%	75%
Arrears > 180 days	IV	100%	100%
Individual provisioning	impairment	Individually determined	Individually determined

Individual provisioning assessment (impairment)

Individual provisioning is calculated for clients whose total debt amount to the Bank exceeds EUR 30,000 at the time of classification (including all related parties), and whose arrears exceed 30 days at the end of the month (refers both to standard and restructured loans, legal entities deleted from the register, in bankruptcy or liquidation, and entrepreneurs deleted from the registry, and not in arrears over 30 days and have exposure > EUR 30,000 EUR).

Likewise, individual impairment can be calculated even if a client is less than 30 days in arrears (over EUR 30,000 of total outstanding debt per group of related parties) if there are indicators of changes in the client's business, i.e. if the client is facing certain business problems and if the indicators show that the loan will exceed 30-day arrears. The frequency of monitoring of a borrower's financial position is determined by the credit committee in accordance with the Bank's policies, the credit committee assesses the credit risk pursuant to the criteria defined by the Bank's rules and regulations.

When monitoring any borrower, all factors are taken into account which may aggravate a client's eligibility or cause the pledge quality to deteriorate, thus leading to problems in loan collection. These factors are:

- Information from borrowers' financial reports indicating financial problems or potential aggravation of the financial situation
- Possibility of business cessation due to financial problems, owner's death or illness, changes in management structure, changes in buyer or supplier structure, changes in competition that may have a material adverse effect on the client's business
- Deterioration in pledge value or liquidity
- Historical trend in loan instalment payments, implying it is not likely that the total loan amount will be repaid by the borrower
- Other factors, such as general economic conditions, regional risk, industry risk, regulatory risk, dependence on buyers and suppliers, and the like.

The Credit Analysis Department, in cooperation with the responsible credit staff, is in charge of preparing the impairment analyses for such loans, on the basis of which the weighting for individual provisioning is determined, also taking into consideration the possibility of collection through the sale of the pledged collateral item. Based on this analysis, the Bank will make its final decision on individual provisioning for the respective client.

In case of individual impairment calculation, the basis represents total amount of on-balance receivables (due and undue principal, due interests for all receivables and not earned disbursement fees), without deduction for amount of deposits, because deposit was already included in analysis as well as total amount of off-balance potential liabilities.

If there is a material significance of on-balance receivables, analysis shall also include off-balance receivables if there is impairment evidence.

Analysis of discounted cash flows (impairment analysis) – defining individual impairment weights

The individual impairment of the book value of the exposure is determined on the basis of net present value of future inflows.

Impairment analyses are performed at the level of the group of related parties for all on-balance receivables of the Bank from that borrower. Impairment analyses should be performed annually for each client for whom the decision to have individually weighted provisions has been reached. If material changes occur in the quarter during which an individual weighting has previously been determined, it is necessary to do a new analysis and determine a new weighting. The risk weight used in this case for the calculation of provisioning represents the potential loss for the Bank expressed as a percentage.

Impairment analyses are prepared taking into account both qualitative and quantitative criteria:

- Client's (group of related parties) total debt with respect to all credit (on-balance) products in the Bank, including bill of exchange protests, but excluding potential liabilities (documentary products) or ProCredit Leasing d.o.o. Beograd placements.
- Claimed amounts monitored in the course of the analyses are the total due liabilities of the group of related parties (principal, due interest and due booked penalty interest).
- Anticipated problems with loan collection, and problems faced by client
- Data on the pledge type and value, as well as the possibility of pledge activation

- Expected loan amount to be recovered through borrower's payments or through enforced sale of loan collateral over the next 3 years, including costs of sale.

For the purpose of determining the weighting for individual exposure provisioning for a particular borrower, it is necessary to:

- Prepare cash flow projections that will include data on the loan instalment maturity, as well as data about the expected loan amount recovered through borrower's payments and from sale of
collateral items
- Future cash flows of the expected collection are discounted by the weighted effective interest rate of all the borrower's loans
- The projected loss is calculated, at the date of the impairment analysis, as the difference between receivables from the borrower and the present value of the projected collection arising from those receivables.

The individual provisioning weight is related to the total exposure towards the client, calculated as a percentage of the potential loss.

In the case insignificant exposure (exposure below EUR 30.000), irrespective of the number of days in arrears, an individual loan will be immediately reclassified as class V ("terminated" status) and 100% impaired, in accordance with the credit committee decision, if the loan agreement is terminated.

Write-off policy

As a rule of thumb, ProCredit Bank writes off all loans with repayment arrears exceeding 360 days with an outstanding debt of over EUR 10,000, and loans with arrears exceeding 180 days with an outstanding debt less than EUR 10,000. Exceptions are loans with an outstanding debt in excess of EUR 30,000, with acceptable collateral, over 360 days in arrears, and with expected collection; in this situation the claim is not written off.

As a general rule, claim write-off is possible only if the claim already has 100% provisioning.

Necessary documentation

According to credit procedures all branches / business centres are obliged to create a credit file for each client, regardless of the type of client's exposure (loan, credit card, overdraft or documentary business).
The necessary credit file documentation is defined by an internal Bank document "CFO" (credit file order).

Calculation of allowances for impairment – provisions against potential losses for ProCredit Leasing d.o.o. Beograd

Loan loss classification and the creation of provisions with regard to credit risk for financial leases is conducted in accordance with the number of days in arrears, the amount of the receivable from the client and the status of the leasing contract. Loan-loss classification is conducted on the level of the client and not the level of individual financial leasing contracts.

Status "Leased" means that the financial leasing contract with the client is active. Within this status allowances are created in line with number of days in arrears, estimated losses on the portfolio level and the probability of these losses for group (portfolio) level allowances, while on the level on individual clients this is conducted for significant receivables on an individual basis using the analysis of discounted cash flow.

Status “Terminated” means that the financial lease contract with the client has been terminated. It has sub-statuses:

- “All due” - financial leasing contract is terminated, principal is due, but assets financed through leasing was not took over,
- “In possession” - situation when financial leasing contract is terminated, principal is due and assets financed through leasing was took over,
- “Sold out” - financial leasing contract is terminated and asset financed through leasing was sold,
- “Write off”- receivables for financial leasing contract were written off,
- “Repaid” - financial leasing contract is repaid.

Calculation of the risk classes and allowances is conducted quarterly except for the sub-status “In Possession” for which it is calculated upon allocation to this status and quarterly.

The basis for calculating allowances is the outstanding debt of the client at the time of determining loan-loss classification, which includes outstanding principle, principle overdue, interest and penalties.

Loan-loss classifications and impairment provisions at 31 December 2013 are shown in the table below.

Status		**Number of days in arrears / sub-status**	**Up to EUR 30,000**	**Over EUR 30,000**
Leased		0 to 30 days	1.20%	1.20%
	Restructured Standard		4.00%	4.00%
	Restructured Watch		13.00%	13.00%
	Restructured Impaired		16.00%	16.00%
	Entrepreneurs - bankruptcy proceedings, arrears up to 30 days		7.00%	7.00%
	Legal entities - bankruptcy proceedings, arrears up to 30 days		50.00%	50.00%
		31 to 90 days	50.00%	Client level
		91 to 180 days	75.00%	Client level
		Over 180 days	100.00%	Client level
Terminated		In possession	Client level	Client level

Leasing internal loan loss classification rating for 2012 is shown below.

Status	**Number of days in arrears / sub-status**	**Up to EUR 30,000**	**Over EUR 30,000**
	0	-	-
	1 to 30 days	1.1%	1.1%
	31 to 90 days	Portfolio level 50%	Client level
	91 to 180 days	Portfolio level 75%	Client level
Leased	Over 180 days	Portfolio level 100%	Client level
Terminated	In possession or Out Possession	Client level	Client level

The impairment provision shown in the consolidated statement of financial position at year-end is derived from each of the five internal rating classes. However, the majority of the impairment provision comes from the bottom two classes – class I and class IV. The table below shows the percentage of the Group's on-balance items relating to loans and advances and the associated impairment provision according to the rules governed by the Group's internal methodology.

	31.12.2013.		31.12.2012.	
	Impairment provision (%)	Loans and advances (%)	Impairment provision (%)	Loans and advances (%)
I	1.6	94.3	1.4	93.7
II	51.5	0.5	49	0.7
III	81.7	0.2	71.5	0.3
IV	99.1	2.0	99.7	2.2
Impairment	39.2	3.0	43.3	3.1
	4.9	**100**	**5.4**	**100**

Associated impairment provision percentages in this case represent the relationship between the extracted impairment provision and the gross amount of loans and advances to customers without taking into consideration deductible items, which can lower the basis for calculating impairment provisions. Financial lease receivables are, for the purpose of this analysis, shown in risk class I if their status is "Leased" with arrears up to 30 days. Financial lease receivables are shown in risk class II if their status is "Leased" with arrears between 31 and 90 days. Financial lease receivables are shown in risk class III if their status is "Leased" with arrears between 91 and 180 days. Financial lease receivables are shown in risk class IV if their status is "Leased" with arrears of over 180 days or if their status is "Terminated".

B.3. Quality of the Loan Portfolio and the Maximum Exposure to Risk before Collateral Held

The quality of the loan portfolio is high, which is reflected in the low level of portfolio at risk (defined as the unpaid part of loan portfolio with at least one instalment overdue 30 days or more).

The following table shows exposure to credit risk at 31 December 2013 and 2012 indicating total exposure to credit risk without taking into consideration means of collateral. The table also includes off-balance items which might lead to credit risk.

Maximum Exposure To Credit Risk

	2013	2012
On-Balance Exposure		
Balances with NBS other than mandatory reserve deposits (Note 14)	513,689	515,049
Loans and advances to banks (Note 15)		
Loans to banks within a group	23,052	12,182
Loans to OECD banks	349,859	588,278
Loans to domestic and non-OECD banks	679,956	744,446
Total loans and advances to banks and balances with NBS	**1,566,556**	**1,859,955**
Loans and advances to customers (net):		
Business	29,473,813	31,650,115
Agricultural	14,023,695	13,128,991
Housing	3,402,887	2,363,877
Finance leases	1,417,470	1,566,470
Consumer	2,856,363	2,811,440
Other	1,052,733	1,355,092
Total loans and advances to customers (Note 16)	**52,226,961**	**52,875,985**
Other financial assets (Note 22)	621,231	559,352
Off-balance credit risk exposure (Note 33)	8,688,380	9,047,396
Balance as at 31 December	**63,103,128**	**64,342,688**

For on-balance assets, the exposures set out above are based on net carrying amounts as reported in the consolidated statement of financial position.

- 82.8% of the total exposure is related to loans to customers and financial leases thus reflecting the major business activity of the Group (31 December 2012: 83.1%);
- 94.3% of the total of loans and advances is classified in the most favourable impairment class according to the Group's internal methodology (31 December 2012: 93.7%);
- 41.6% of loans and advances to customers are covered by mortgages or customer deposits (31 December 2012: 26.6%).

The table below shows quality structure of the loan portfolio (gross amounts):

	31.12.2013.		31.12.2012.	
	Loans to customers	Loans to banks	Loans to customers	Loans to banks
Neither past due nor impaired	48,009,343	1,566,556	46,072,296	1,859,955
Past due but not impaired	4,199,008	-	6,834,432	-
Impaired	2,706,466	-	3,083,632	-
Total	**54,914,817**	**1,566,556**	**55,990,360**	**1,859,955**

The total allowance for impaired is RSD thousand 1,695,180 (31 December 2012: RSD 2,072,722 thousand). Out of this amount, individually impaired loans make up 602,296 RSD thousand (31 December 2012: RSD 837,458 thousand) and the remaining amount of 1,092,884 RSD thousand (31 December 2012: RSD 1,235,265 thousand) represents the group allowance.

(a) Loans and advances neither past due or impaired

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the Group. All loans and advances to customers that are neither past due nor impaired are mostly classified in risk class I according to Group's internal methodology.

	31.12.2013.		31.12.2012.	
Business loans	26,708,916	55.63%	26,208,738	56.89%
Agriculture loans	13,250,618	27.60%	12,308,250	26.72%
Consumer loans	3,284,584	6.84%	2,588,887	5.62%
Housing improvement loans and housing loans	1,150,452	2.40%	2,245,415	4.87%
Other	2,567,988	5.35%	1,340,319	2.91%
Finance leases	1,046,785	2.18%	1,380,687	3.00%
Total	**48,009,343**	**100.00%**	**46,072,296**	**100.00%**

Loans and advances to banks are exposures to banks with the following Fitch credit ratings:

	31.12.2013.		**31.12.2012.**	
AA- to AA+ rated	-	-	243,560	18.11%
A- to A+ rated	348,907	33.14%	344,717	25.63%
BBB to BB-	703,959	66.86%	756,628	56.26%
Not rated	-	-	-	-
Total loans and advances to banks	**1,052,866**	**100.00%**	**1,344,905**	**100.00%**

The following table indicates the quality of loans and advances to customers and banks which are neither past due nor impaired for 2013 and 2012:

	31.12.2013.		31.12.2012.	
	Loans to customers	Loans to banks	Loans to customers	Loans to banks
I	47,968,904	1,566,556	45,931,856	1,859,955
II	40,439	-	96,162	-
III	-	-	14,507	-
IV	-	-	29,771	-
Total	**48,009,343**	**1,566,556**	**46,072,296**	**1,859,955**

(b) Loans and advances past due but not impaired

Loans and advances less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary. This also includes loans with other signs of impairment and not in arrears over 30 days, with exposure less than 30,000 EUR. Gross amounts of loans and advances by class to customers that were past due but not impaired were as follows:

31 December 2013	Business loans	Agricultural loans	Consumer loans	Housing improvement and housing loans	Other	Finance leases	Total
Past due up to 30 days	2,426,780	820,547	265,717	132,488	16,542	262,515	3,924,589
Past due 31 to 90 days	145,017	62,408	49,732	9,106	1,457	6,699	274,419
Total	**2,571,797**	**882,955**	**315,449**	**141,594**	**17,999**	**269,214**	**4,199,008**

31 December 2012	Business loans	Agricultural loans	Consumer loans	Housing improvement and housing loans	Other	Finance leases	Total
Past due up to 30 days	5,120,537	928,279	246,817	124,984	881	122,993	6,544,491
Past due 31 to 90 days	163,340	69,892	28,910	18,259	1,466	8,074	289,941
Total	**5,283,877**	**998,171**	**275,727**	**143,243**	**2,347**	**131,067**	**6,834,432**

c) Impaired loans and advances to customers

Loans that are overdue by more than 90 days are considered to be impaired. This also includes individually impaired loans.

As at 31 December 2013, individually impaired loans amounted to RSD 1,543,582 thousand (31 December 2012: RSD 1,740,384 thousand).

The following table gives a composition of collectively impaired loans and allowances:

	Business loans	Agricultural loans	Consumer loans	Housing improvement and housing loans	Finance leases	Other	Total
31-Dec-13							
Gross exposure	686,890	135,636	129,432	55,815	56,500	107,611	1,171,884
Allowance	649,835	128,823	97,316	55,128	54,300	107,482	1,092,884
Net exposure	**37,055**	**6,813**	**32,116**	**687**	**2,200**	**129**	**79,000**
31-Dec-12							
Gross exposure	766,191	182,106	120,607	69,463	86,837	118,043	1,343,247
Allowance	720,693	172,845	73,889	68,122	83,801	115,915	1,235,265
Net exposure	**45,498**	**9,261**	**46,718**	**1,341**	**3,036**	**2,128**	**107,982**

The following table shows the composition of individually impaired loans and allowances.

	Business loans	Agricultural loans	Consumer loans	Housing improvement and housing loans	Finance leases	Other	Total
31-Dec-13							
Gross exposure	1,234,498	188,873	409	52,922	53,424	4,456	1,534,582
Allowance	485,530	74,530	466	7,122	33,548	1,100	602,296
Net exposure	**748,968**	**114,343**	**-57**	**45,800**	**19,876**	**3,356**	**932,286**
31-Dec-12							
Gross exposure	1,437,906	132,793	958	28,439	140,288	0	1,740,384
Allowance	655,883	75,555	1779	7,550	96,691	0	837,458
Net exposure	**782,023**	**57,238**	**-821**	**20,889**	**43,597**	**0**	**902,926**

The table below indicates the allowance level which the Group would incur in case that collateral was not recognized in allowance calculation for individually impaired loans. Inclusion of future cash inflows from sale of the collateral in calculation for individually impaired loans reduces the allowances, which would otherwise be included. Future cash inflows from sale of collateral are based on estimated market prices at the time of expected sale adjusted with haircut effect. In case of non - recognition of collateral final amount of LLP will be determined on the basis of days in arrears bucket. We use impairment ponders on the group level depending on the days in arrear bucket:

31-Dec-13	Gross exposure	Allowance
Business	1,234,498	740,671
Agricultural	188,873	52,746
Housing	52,922	13,405
Finance leases	53,424	53,283
Consumer	409	142
Other	4,456	3,342
Total	**1,534,582**	**863,589**

31-Dec-12	Gross exposure	Allowance
Business	1,437,906	1,033,145
Agricultural	132,793	55,873
Housing	28,439	5,755
Finance leases	140,288	140,288
Consumer	958	188
Total	**1,740,384**	**1,235,249**

(d) Repossessed collateral

The following table below indicates the balances and types of repossessed collateral held by the Group at 31 December 2013 and 2012:

	31.12.2013.	31.12.2012.
Real-estate	116,884	53,525
Movable	2,120	2,058
Movable - financial leases	9,335	24,198
Total	**128,339**	**79,781**

B.4. Collateral Policy

As a general rule, collateral or an external guarantor (or a combination of those two types of security) is required for all disbursed loans. For housing loans, real-estate is required as collateral. The same rule applies for housing improvement loans exceeding EUR 10,000.

For all loans to be approved for amounts over EUR 100,000, or smaller loans that require collateral in the professional opinion of the Bank's lawyer, is necessary to screen any legal risks related to the client's business and to the collateral itself. For all loans over EUR 30,000 with mortgages as collateral, it is necessary to have an official mortgage estimate made by a court accredited expert.

When financing the purchase of new cars or taxis, fully-comprehensive insurance assigned to the Bank is a necessary means of collateral. In addition when using mortgages as collateral the Group reserves the right to demand buildings insurance against common risks. Also the Group can ask for an endowment life insurance policy for the client (only in case of a private person) if deemed necessary.

An estimate of the fair value of collateral and other security enhancements held against loans and advances to customers and banks is shown below:

Neither past due nor impaired:	2013	2012
- Cash deposits	6,192,628	6,118,936
- Real estate	13,852,811	13,687,963
- Other	27,963,904	26,265,397
Total:	48,009,343	46,072,296

Past due but not impaired:	2013	2012
- Cash deposits	339,465	552,523
- Real estate	1,196,276	1,947,095
- Other	2,663,267	4,334,814
Total:	4,199,008	6,834,432

Impaired	2013	2012
- Cash deposits	163,167	185,906
- Real estate	1,081,242	1,231,921
- Other	1,462,057	1,665,805
Total:	2,706,466	3,083,632

The Group's policy is to pursue timely realisation of the collateral in an orderly manner.

B.5. Structure and Diversification of the Loan Portfolio

Concentration of exposure risk to various industries and sectors is under constant observation. The sector diversification achieved is at a high level, thus diminishing the credit exposure risk arising from risk concentrations.

For analysis of the portfolio diversification/concentration HHI index was used (Hirschman Hiefendahl Index), representing the sum of squares of relative participation of every sector/industry in the Bank's portfolio. If the result is closer to 1, the portfolio is over concentrated. If the result is closer to the ideal proportion it indicates a low level of portfolio concentration. For the Group the ideal proportion would be 1/40, or HHI ratio of 0.025 meaning that the loan portfolio is spread over 40 different sectors/industries.

The following table shows the values of HHI ratio for 2013 and 2012:

2013		2012	
HHI ratio by volume of loans	HHI ratio by number of loans	HHI ratio by volume of loans	HHI ratio by number of loans
0.1758	0.2649	0.1687	0.2260

The following table sets out the basis for interpretation of the degree of concentration of the Group's loan portfolio according to the Hirschman Hiefendahl Index:

Concentration level	HHI
Low	0.025 – 0.26875
Medium	0.26876 – 0.5125
High	0.5126 – 0.75625
Critical	0.75626 – 1

The table below gives a breakdown of the Group's loan portfolio by industry, including loans to financial institutions, loans to business clients and agricultural loans:

	31.12.2013.		31.12.2012.	
	Placements to clients	(%)	Placements to clients	(%)
Financial institutions	1,566,556	2.77%	1,859,955	3.22%
Trade	12,780,922	22.63%	5,157,456	8.92%
Industry and other production	7,924,823	14.03%	1,868,099	3.23%
Construction	1,451,497	2.57%	299,271	0.52%
Transport	2,671,211	4.73%	2,260,285	3.91%
Tourism	1,122,794	1.99%	1,099,894	1.90%
Other services	4,593,391	8.13%	13,286,186	22.97%
Mixed	167,621	0.30%	13,514,219	23.36%
Agricultural loans	16,304,998	28.87%	11,047,841	19.10%
Loans to private individuals	7,897,560	13.98%	7,457,109	12.89%
Total	**56,481,373**	**100.00%**	**57,850,315**	**100.00%**

B.6. Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Guarantees or letters of credit are subjected to the same approval mechanism as regular loans. This also implies that the same collateral requirements apply for off-balance commitments as for loans. Moreover, the Bank measures total client exposure and creditworthiness by also adding off-balance commitments to him/her and by taking into consideration any related parties and their exposure and creditworthiness.

C) Market risk

Market risk

The policy of the Group is not to speculate and to keep all forms of risk at an acceptable level. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements, and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices. The Group complies with the limits on the value of risk that may be accepted as prescribed by the Central Bank as well as with limits set by internal risk committees.

C.1. Foreign currency risk

Foreign currency risk exposure is monitored regularly through compliance with the regulatory limits prescribed by the National Bank of Serbia. The Group maintains its foreign currency position by granting loans with foreign currency clauses. Furthermore, the Group takes an active approach to currency risk management, and prudently assesses and manages open foreign currency position with foreign currency swaps and by keeping open currency risk exposure within the limits set by the National bank of Serbia, as well as adhering to internal rules and limits prescribed by the Bank’s management and risk committees.

The table below summarises the Group's exposure to foreign currency exchange risk at 31 December 2013. The table includes the Group's assets and liabilities at the relevant carrying amounts, categorised by currency.

31 December 2013	eur / eur indexed	usd	other	total foreign currency	local currency	total
ASSETS						
Cash	6,084,883	557,665	90,273	6,732,821	6,461,834	13,194,655
Loans and advances to banks	775,141	92,586	66,930	934,657	118,209	1,052,866
Loans and advances to customers	41,811,437	-	-	41,811,437	10,415,524	52,226,961
Derivative financial assets	-	-	-	-	75	75
Available-for-sale securities	2,151	38,614	-	40,765	-	40,765
Intangible assets	-	-	-	-	294,707	294,707
Property plant and equipment	-	-	-	-	1,690,150	1,690,150
Deferred income tax assets	-	-	-	-	74,576	74,576
Other assets	504,307	2,528	-	506,835	533,398	1,040,233
Total assets	**49,177,919**	**691,393**	**157,203**	**50,026,515**	**19,588,473**	**69,614,988**
LIABILITIES						
Deposits from banks	138,149	-	-	138,149	-	138,149
Derivative financial liabilities	3,194	-	-	3,194	909	4,103
Due to customers	27,460,994	1,200,227	290,141	28,951,362	8,221,018	37,172,380
Borrowings	17,136,758	-	-	17,136,758	(46,616)	17,090,142
Subordinated debt	3,570,930	-	-	3,570,930	-	3,570,930
Tax liabilities	-	-	-	-	37,846	37,846
Provisions	15,980	1,377	-	17,357	154,306	171,663
Other liabilities	19,551	115	300	19,966	309,837	329,803
Equity	-	-	-	-	11,099,972	11,099,972
Total liabilities and equity	**48,345,556**	**1,201,719**	**290,441**	**49,837,716**	**19,777,272**	**69,614,988**
Net on statement of financial position	**832,363**	**(510,326)**	**(133,238)**	**188,799**	**(188,799)**	
Loan commitments (Note 33)	**116,457**				**3,728,619**	**3,845,076**
31 December 2012						
Total assets	47,756,365	779,762	124,447	48,660,574	19,697,613	68,358,187
Total liabilities and equity	46,998,623	1,262,562	305,946	48,567,131	19,791,056	68,358,187
Net on statement of financial position	757,742	(482,800)	(181,499)	93,443	(93,443)	
Loan commitments (Note 33)	-	-	-		**3,702,590**	**3,702,590**

The following table provides an overview of the sensitivity analysis of the exposure to currency risk assuming a change in the local currency exchange rate of 15%:

	Open Currency Position based on-balance data on 31 December		Effect of 15% Depreciation of RSD to Open Currency Position		Effect of 15% Appreciatioı of RSD to Open Currenc Positioı	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**
USD	(510,326)	(482,800)	(76,549)	(72,420)	76,549	72,420
EUR	832,363	757,742	124,854	113,661	(124,854)	(113,661)
Other Currencies	(133,238)	(181,499)	(19,986)	(27,225)	19,986	27,225

Bearing in mind the currency structure of the consolidated statement of financial position, an appreciation of 15% in the value of the local currency would negatively affect profit by RSD 28,319 thousand (2012: negative effect 14,016 thousand). In case of a depreciation of 15% in the value of local currency the positive effect on profit would be RSD 28,319 thousand (2012: positive effect 14,016 thousand).

C.2. Interest rate risk

The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest rates may increase or decrease as a result of such changes and may create negative effects to the Group's capital and/or income. Interest rates are based on market rates which the Group re-prices and reassesses regularly.

Risk management activities are aimed at optimising net interest income, assuming market interest rate levels consistent with the Group's business strategies. In managing the maturity structure, senior management considers i.a.:

- Macro- and microeconomic forecasts,
- Forecasts in liquidity conditions and
- Anticipated trends in interest rates.

Interest rate risk arising from gaps between varying maturities of assets and liabilities with fixed interest rates is managed by balancing the structure of loans and advances to customers with amounts due to customers and other types of short- and long-term borrowings. Interest rate risk arising from maturity gaps between the re-pricing of long-term borrowings taken at floating rates, and the re-pricing of loans disbursed at floating interest rates, is prudently hedged with fixed-for-floating interest rate swaps. As of 31 December 2013 the Group had outstanding interest rate swaps worth a notional amount of EUR 775 thousands.

The table below summarises the Group's exposure to interest rate risks. The table includes the Group's assets and liabilities at carrying amounts, categorised by the earlier of either contractual re-pricing or maturity date.

31 December 2013	Up to 1 month	1 to 3 months	3 to 12 months	1 to 2 years	2 to 5 years	over 5 years	Non-Interest Sensitive	Total
ASSETS								
Cash	2,600,000	-	-	-	-	-	10,594,655	13,194,655
Loans and advances to banks	561,746	-	-	-	-	-	491,120	1,052,866
Loans and advances to customers	27,082,132	3,779,797	12,323,513	5,238,909	3,426,539	88,745	287,326	52,226,961
Derivative financial assets	-	-	-	-	-	-	75	75
Available-for-sale securities	-	-	-	-	-	-	40,765	40,765
Other assets	-	-	-	-	-	-	3,099,666	3,099,666
Total assets	**30,243,878**	**3,779,797**	**12,323,513**	**5,238,909**	**3,426,539**	**88,745**	**14,513,607**	**69,614,988**
Liabilities								
Deposits from banks	-	-	-	-	-	-	138,149	138,149
Derivative financial liabilities	-	-	-	-	-	-	4,103	4,103
Due to customers	9,723,618	3,341,843	14,655,426	491,644	1,077,151	90,164	7,792,534	37,172,380
Borrowings	573,213	4,847,680	8,276,622	890,674	1,982,830	487,960	31,163	17,090,142
Subordinated debt	-	-	2,407,484	-	-	1,146,421	17,025	3,570,930
Other liabilities	-	-	-	-	-	-	539,312	539,312
Equity	-	-	-	-	-	-	11,099,972	11,099,972
Total liabilities and equity	**10,296,831**	**8,189,523**	**25,339,532**	**1,382,318**	**3,059,981**	**1,724,545**	**19,622,258**	**69,614,988**
Interest sensitivity gap	**19,947,047**	**(4,409,726)**	**(13,016,019)**	**3,856,591**	**366,558**	**(1,635,800)**	**(5,108,651)**	
As 31 December 2012								
Total assets	**25,137,682**	**2,984,761**	**14,603,114**	**7,286,802**	**4,401,616**	**119,160**	**13,825,052**	**68,358,187**
Total liabilities	**12,077,412**	**10,618,113**	**21,994,984**	**1,194,364**	**1,437,457**	**1,482,118**	**19,553,739**	**68,358,187**
Interest sensitivity gap	**13,060,270**	**(7,633,352)**	**(7,391,870)**	**6,092,438**	**2,964,159**	**(1,362,958)**	**(5,728,687)**	

Negative gaps in time brackets in the table above are a consequence of the significant volume of assets tied up in minimum reserves. The proportion of the minimum reserves held in foreign currency is not interest rate sensitive.

At 31 December 2013, if interest rates decreases by 200 basis points and all other variables remain constant, the Group's profit for the year would have been approximately RSD 247,512 thousand lower (2012: RSD 124,180 thousand lower). The following table indicates the influence of potential interest rate movements on profit/loss for 2013 and 2012

	Profit and loss sensitivity to changes in interest rates					
	2% increase in interest rates			2% decrease in interest rates		
	TOTAL (EUR, RSD, other currencies)	EUR	RSD	TOTAL (EUR, RSD, other currencies)	EUR	RSD
31 December 2013	247,512	141,812	115,330	(247,512)	(141,812)	(115,330)

	Profit and loss sensitivity to changes in interest rates					
	2% increase in interest rates			2% decrease in interest rates		
	TOTAL (EUR, RSD, other currencies)	EUR	RSD	TOTAL (EUR, RSD, other currencies)	EUR	RSD
31 December 2012	124,180	27,520	107,919	(124,180)	(27,520)	(107,919)

D) Liquidity risk

Liquidity risk arises when the Group cannot meet matured liabilities. This can have negative effect in financial results and Group's equity. The Group manages liquidity risks by providing adequate founding structure that includes:

- customer deposits with wide ranges of maturity,
- money market deposits,
- loans from foreign banks and financial institutions,
- subordinated debt,
- share capital.

The aims of liquidity policies are providing enough assets for payment of all liabilities when they mature with regular disbursements of new loans to clients.

The Group manages liquidity risk by constant monitoring of harmonising between assets and liabilities and by analysis of expected cash flow to be sure that bank is able to meet all liabilities in every moment.

In line with regulatory requirements, the Group allocated assets in Mandatory reserve with the National bank of Serbia which is protective measure of sudden and significant deposit withdrawals or paying other liabilities.

Also, the Group has liquidity reserve in stand-by line signed with ProCredit Holding in amount of EUR 30 million.

The Group continually assesses the liquidity risk by identifying and monitoring changes in the funding required for achieving business goals and targets, in line with the Group's overall strategy.

Details of the Bank's (these ratios are calculated only for the Bank) exposure to liquidity risk are as follows:

	2013	2012
At 31 December	3.08	2.05
Average for the last month of the year	2.67	1.96

D.1 Non derivatives cash flow

	Up to 1 month	1 to 3 months	3 to 12 months	1 to 2 years	2 to 5 years	over 5 years	Total
ASSETS							
Cash	13,194,655	-	-	-	-	-	13,194,655
Loans and advances to banks	1,052,866	-	-	-	-	-	1,052,866
Loans and advances to customers	3,182,979	5,374,501	18,399,090	9,877,770	9,771,914	5,620,707	52,226,961
Derivative financial assets	75	-	-	-	-	-	75
Available-for-sale securities	40,765	-	-	-	-	-	40,765
Other financial investments	-	-	-	-	-	-	-
Other assets	6,770	14,569	767,729	46,460	564,689	1,699,449	3,099,666
Total assets	**17,478,110**	**5,389,070**	**19,166,819**	**9,924,230**	**10,336,603**	**7,320,156**	**69,614,988**
LIABILITIES							
Deposits from banks	138,149	-	-	-	-	-	138,149
Derivative financial liabilities	4,103	-	-	-	-	-	4,103
Due to customers	17,516,152	3,341,843	14,655,426	491,644	1,077,151	90,164	37,172,380
Borrowing	345,051	828,634	3,493,429	4,482,174	7,095,451	845,403	17,090,142
Subordinated debt	-	-	17,025	-	-	3,553,905	3,570,930
Provisions	-	-	103,365	4,135	64,163	-	171,663
Other liabilities	171,388	-	98,845	-	-	97,416	367,649
Equity	-	-	-	-	-	11,099,972	11,099,972
Total liabilities and equity	**18,174,843**	**4,170,477**	**18,368,090**	**4,977,953**	**8,236,765**	**15,686,860**	**69,614,988**
GAP	**(696,733)**	**1,218,593**	**798,729**	**4,946,277**	**2,099,838**	**(8,366,704)**	
As 31 December 2012	**Up to 1 month**	**1 to 3 months**	**3 to 12 months**	**1 to 2 years**	**2 to 5 years**	**over 5 years**	**Total**
Total assets	**15,699,872**	**4,227,204**	**20,338,508**	**11,914,178**	**10,031,865**	**6,146,560**	**68,358,187**
Total liabilities and equity	**19,221,112**	**4,281,319**	**15,743,679**	**2,067,470**	**12,462,044**	**14,582,563**	**68,358,187**
GAP	**(3,521,240)**	**(54,115)**	**4,594,829**	**9,846,708**	**(2,430,179)**	**(8,436,003)**	

D.2 Derivatives settled on a gross basis

The Group's derivatives that are settled on a gross basis include foreign currency swaps.

The table below breaks down the Group's derivative financial instruments that are settled on a gross basis into relevant maturity groupings based on the remaining period from the date of consolidated statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than one month	From 1 to 3 months	From 3 to 12 months	Over one Year	Total
At 31 December 2013					
Foreign currency swaps					
− Outflow	(664,924)	-	-	-	**(664,924)**
− Inflow	664,081		-	-	**664,081**
	(843)				**(843)**
At 31 December 2012					
Foreign currency swaps					
− Outflow	(681,173)	-	-	-	**(681,173)**
− Inflow	682,358	-	-	-	**682,358**
	1,185				**1,185**

D.3 Derivatives settled on a net basis

The Group's derivatives that are settled on a net basis include interest rate swaps (Note 24).

The table below breaks down the Group's derivative financial instruments that are settled on a net basis into relevant maturity groupings based on the remaining period from the date of consolidated statement of financial position to the contractual or settlement maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than one month	From 1 to 3 months	From 3 to 12 months	Over one Year	Total
At 31 December 2013					
Interest rate swaps					
− Outflow	-	-	(3,194)	-	**(3,194)**
At 31 December 2012					
Interest rate swaps					
− Outflow	-	-	(6,757)	-	**(6,757)**

D.4 Contingent Liabilities and Credit Commitments

The table below provides an analysis of the maturity structure of contingent liabilities and credit commitments on the basis of remaining maturity. The entire stock of credit commitments is related to local currency potential loan placements to clients, maturing mostly within 24 months.

31 December 2013	No later than 1 year	1 to 4 years	Over 4 years	**Total**
Approved but unused overdraft limits for consumer clients	179,392	-	-	**179,392**
Approved but unused overdraft limits for business clients	3,376,860	-	-	**3,376,860**
Approved but unused credit card limits	-	288,825	-	**288,825**
Payments and guarantees	2,474,018	647,314	421,824	**3,543,156**
Letters of credit	57,246	-	-	**57,246**
Performance guarantees	596,441	639,704	6,757	**1,242,902**
Total	**6,683,957**	**1,575,843**	**428,581**	**8,688,381**

31 December 2012	No later than 1 year	1 to 4 years	Over 4 years	**Total**
Approved but unused overdraft limits for consumer clients	161,246	-	-	**161,246**
Approved but unused overdraft limits for business clients	3,197,109	-	-	**3,197,109**
Approved but unused credit card limits	344,236	-	-	**344,236**
Payments and guarantees	166,063	2,471,767	1,665,480	**4,303,310**
Letters of credit	22,751	25,517	-	**48,268**
Performance guarantees	24,284	878,927	90,016	**993,227**
Total	**3,915,689**	**3,376,211**	**1,755,496**	**9,047,396**

E) Fair values of financial assets and liabilities

Fair values of financial assets measured at fair value

The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

- Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair value determinations are based on inputs observable for the asset or liability, either directly or indirectly (Level 2). The valuation techniques applied refer to the current fair value of similar instruments and discounted cash flow analysis using observable market parameters, e.g. interest rates and exchange rates. The Group has no fair value financial instruments with Level 3 inputs.

In 2013 and 2012 there have been no transfers of fair value financial instruments between the input levels of the fair value hierarchy.

This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

Assets and liabilities measured at fair value as at 31 December 2013:

	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial assets	-	75	-	75
Available for sale securities and Repurchase transactions	38,614	2,102,591	-	2,141,205
Total Financial Assets	**38,614**	**2,102,666**	**-**	**2,141,280**
Financial liabilities				
Derivative financial liabilities	-	4,103	-	4,103
Total Financial Liabilities	**-**	**4,103**	**-**	**4,103**

Assets and liabilities measured at fair value as at 31 December 2012:

	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial assets	-	1,323	-	1,323
Available for sale securities and Repurchase transactions	27,249	992,451	-	1,031,065
Total Financial Assets	**27,249**	**1,005,139**	**-**	**1,032,388**
Financial liabilities				
Derivative financial liabilities	-	7,122	-	7,122
Total Financial Liabilities	**-**	**7,122**	**-**	**7,122**

In 2013 there was no transfer between level 1 and level 2 of the fair value hierarchy. There were no Level 3 items as at 31 December 2013 or 2012.

Fair values of financial assets not measured at fair value

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not measured at fair value.

	Carrying value 31 December		Fair value 31 December	
	2013	2012	2013	2012
Financial assets not measured at fair value				
Loans and advances to customers	**52,226,961**	**52,875,985**	**51,324,896**	**52,761,831**
Business	29,415,231	31,720,926	28,757,593	31,591,471
Agro	14,021,138	13,127,774	14,033,881	13,089,514
Housing Loans	3,402,886	2,363,608	3,356,854	2,320,612
Consumer	2,814,451	2,810,821	2,756,580	2,759,309
Leasing	1,417,470	1,528,575	1,263,823	1,675,428
Other	1,155,785	1,324,281	1,156,165	1,325,497
Loans and advances to banks	**1,052,866**	**1,344,906**	**1,052,866**	**1,344,906**
Total Financial Assets	**53,279,827**	**54,220,891**	**52,377,762**	**54,106,737**
Financial liabilities not measured at fair value				
Deposits from banks	**138,149**	**2,166,015**	**138,149**	**2,166,015**
Due to customers	**37,172,380**	**34,445,240**	**37,363,813**	**34,588,407**
Private individuals	23,779,318	22,235,047	23,981,928	22,338,547
Legal entities	13,393,062	12,210,193	13,381,885	12,249,860
Borrowings	**17,090,142**	**16,288,902**	**16,751,786**	**16,140,394**
Subordinated debt	**3,570,930**	**4,230,895**	**3,570,930**	**4,632,930**
Total Financial Liabilities	**57,971,602**	**57,131,052**	**57,824,678**	**57,527,746**

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to determine the estimated fair value.

The carrying amounts of other financial assets and other financial liabilities represent a reasonable approximation of the fair value due to their short-term maturity.

Loans and advances to banks

The fair value of placements with and loans to other banks approximately equals the carrying amount since they all have less than a six-month maturity.

The estimated fair value of fixed-interest bearing deposits to other banks is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity.

Loans and advances to customers

The fair value of loans and advances to customers is their expected cash flow discounted at current market rates. Current market rates are interest rates that Bank would charge at the moment (year-end). Loans and advances to customers are stated net of provisions for impairment.

Deposits from banks

The fair value of liabilities to banks approximately equals the carrying amount since they all have less than a six-month maturity.

Due to customers

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand.

The estimated fair value of term deposits is calculated by discounting the cash flows at agreed dates with current market rates on deposit that have more than a six-month maturity and where actual interest rate is not the same as the agreed for these deposits.

Borrowings

Fair value of liabilities to international financial institutions shows that the Group – based on its current position in the market, strong shareholders and results achieved – was able to contract very good conditions for long term loans.

If observable market rates are not available to determine the fair value of financial liabilities measured at amortised cost, ProCredit Group Treasury rates are used as an input for a discounted cash flow model. These are presented as level 3 input factors. ProCredit Group Treasury rates are determined taking into consideration the cost of capital depending on currencies and maturities plus a risk margin that depends on an internal risk rating for each institution. Internal rates are regularly compared to those applied for third party transactions and are therefore in compliance with an orderly transaction between market participants at the measurement date under current market conditions.

Fair value is smaller than the carrying amount, discounted by the interest rate normally demanded by ProCredit Holding.

Subordinated debts

Subordinated debts variable rates and due that carrying value is not different from their fair value.

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised:

2013	**Note**	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**	**Carrying Amount**
Cash	14	-	13,194,655	-	13,194,655	13,194,655
Loans and advances to banks	15	-	1,052,866	-	1,052,866	1,052,866
Loans and advances to customers	16	-	51,324,896	-	51,324,896	52,226,961
		-	**65,572,417**	**-**	**65,572,417**	**66,474,482**
Deposits from banks	23	-	138,149	-	138,149	138,149
Due to customers	25	-	37,363,813	-	37,363,813	37,172,380
Borrowings	26	-	-	16,751,786	16,751,786	17,090,142
Subordinated debt	27	-	3,570,930	-	3,570,930	3,570,930
		-	**42,128,649**	**15,834,178**	**57,962,827**	**57,971,601**
2012						
Cash	14	-	11,433,656	**-**	11,433,656	11,433,656
Loans and advances to banks	15	-	1,344,906	**-**	1,344,906	1,344,906
Loans and advances to customers	16	-	52,761,831	-	52,761,831	52,875,985
		-	**65,540,393**	**-**	**65,540,393**	**65,654,547**
Deposits from banks	23	**-**	2,166,015	-	2,166,015	2,166,016
Due to customers	25	**-**	34,588,407	-	34,588,407	34,445,240
Borrowings	26	-		16,140,394	16,140,394	16,288,902
Subordinated debt	27	-	4,632,930	-	4,632,930	4,230,895
		-	**41,387,352**	**16,140,394**	**57,527,746**	**57,131,053**

F) Operational Risk

In line with Basle II Accord, we define operational risks as the risk of loss resulting from inadequate or failed internal processes, people and systems and/or external events. This category includes all "risk events" in the areas of personnel, processes, and information technology.

To further expand the processes for managing operational risks, a new Operational Risk Policy was implemented in the Group in 2009 and Policy is updated regularly on annual level. The principles outlined in this document have been designed to effectively manage the operational risk exposure, and they are in compliance with the Basle II requirements for the "standard approach". Furthermore, Fraud Prevention Policy was implemented in 2011 which is also updated annually.

The overall framework to manage operational risks is as a complementary and balanced system with its key components Corporate Culture, Governance Framework, Policies and Procedures, Risk Assessments, Scenario Analysis, New Risk Approvals (NRAs), Outsourcing Risk and the Risk Event Database. While of the Corporate Culture, the Governance Framework, and Policies and Procedures are installed to set the basic organisational requirements, Risk Assessments, New Risk Approvals (NRAs) and the Risk Event Database are the key instruments to execute the risk management process.

The overall objectives of the Group's approach to the management of operational risks are:

- to understand the drivers of the bank's operational risks;
- to be able to identify critical issues as early as possible;
- to avoid losses caused by operational risks; and
- to ensure efficient use of the bank's capital.

To deliver on these goals the following tools and processes have been implemented in detail, being part of the framework components as depicted above. They are presented as they are used within the process to manage operational risks. This process is subdivided into the phases of identification, evaluation, treatment, monitoring, documentation & communication, and follow-up. All corresponding details have been implemented in the bank by approving the Group Operational Risk Policy.

- **Identification**
  - Annual Operational Risk Assessments
  - Scenario analysis
  - Detailed Process Reviews as appropriate
  - New Risk Approval (NRA) process
  - Outsourcing risk analysis
  - Risk identification and documentation in Risk Event Database (RED)
  - Ad hoc identification of potential risks

- **Evaluation / Quantification**
  - Agreed standards to quantify risks (impact * likelihood, Scenario Analysis, Stress testing, Risk Bearing Capacity)

- **Mitigation and Treatment**
  - Implementation of measures to avoid, reduce or mitigate the risks depending on priorities, efficiency considerations and regulations
  - Transfer of risk to an insurance or other party

- **Monitoring & Control**
  - Process owners responsibility to monitor risks
  - Operational Risk Reports as form of MIS, Risk Bearing Capacity calculation and monitoring

- **Communication, Escalation, Documentation**
  - Escalation levels to management bodies, regular reporting, Operational risk committees
  - RED, Management summary documents for risk events

- **Issue Tracking / Follow up tables for material action plans**
  - Follow up tools used in banks

The following categories of operational risk are looked at specifically:

- People Risks
  - the Group seeks to avoid key person dependencies and enforces a two-weeks consecutive leave policy
  - staff training has a very high priority in the Group and ensures continuous development of staff members' personal attitude and commitment and their professional skills
- IT Risks:
  - business continuity plans are in place
  - Information Security standards are in place

- Legal Risks:
  - suitable legal resources are employed to deal with legal matters (internal legal staff and / or external legal counsel)
  - the legal function is involved whenever required and appropriate (e.g. NRA process, all legal issues)
- Compliance and Regulatory Risk
  - The Group ensures the identification of new regulations or updates on the interpretation of regulations and covenants agreed with financing institutions in a timely manner. This function is hosted in legal/ AML and Compliance department.
- Fraud Risk and AML Risk
  - Group AML Policy and a Group Fraud Prevention Policy have been implemented in the Group and corresponding risk assessments have been executed for these areas, based on the German standards.
  - Fraud team was established as group of professionals from relevant departments with main duties to receive and analyse critical information including whistle blowing, organize or supervise fraud investigation, assess and advise about fraud risk development on country level etc.
  - A group wide IT solution to manage unusual transactions has been acquired and is being rolled out to the bank of the Group.
- Reputational Risk
  - Any extraordinary mentions (whether positive or negative) are reported to the management board and to the risk management department to decide on possible responses.
- External Risk Factors
  - external risk events such as a natural disaster that damages a firm's physical assets as well as electrical or telecommunications failures that disrupt business are analysed by risk managers.

As of December 2013, there were 98 legal cases (2 cases are related to parking tickets for leased vehicles) in which the Group was prosecuted (2012: 82 legal cases from which 10 cases were related to parking tickets for leased vehicles in small amounts). Total estimation of claim compensation amount with costs and interest included is around RSD 279.621 thousand. Consequentially, based on its procedure the Group set aside reserves for estimated potential losses originating from the lawsuits in the amount of RSD 67,010 thousands (2012: RSD 52,663 thousand).

4. Net interest income

	Year ended 31 December	
Interest and similar income	**2013**	**2012**
Interest income from loans and advances to banks	279,212	134,257
Interest income from loans and advances to customers	6,874,423	7,208,569
Unwinding cash flow calculation	63,498	76,820
Income from early closure of term deposit accounts	19,082	22,365
Total interest income	**7,236,215**	**7,442,011**

Interest and similar expenses	**2013**	**2012**
Interest expenses on liabilities to banks	(4,464)	(30,846)
Interest expenses on liabilities to customers	(1,059,188)	(1,194,335)
Interest expenses on subordinated debt	(290,866)	(275,920)
Interest expenses on borrowings	(694,392)	(798,972)
Total interest expenses	**(2,048,910)**	**(2,300,073)**
Net interest income	**5,187,305**	**5,141,938**

5. Net fee and commission income

	Year ended 31 December	
	2013	**2012**
Fee and commission income		
Payment transfers and transactions	606,858	624,549
Account maintenance fee	238,900	256,435
Letters of credit and guarantees	118,941	123,382
Debit/credit cards	122,886	119,863
E-banking fees	92,771	99,127
Fees from banking services	208,146	215,450
Other fee and commission income	43,589	15,994
Total fee and commission income	**1,432,091**	**1,454,800**
Fee and commission expense		
Payment transfers and transactions	(140,498)	(142,661)
Fee exp. processing centre	(48,135)	(50,698)
Debit/credit cards expense	(2,903)	(3,241)
Other fee and commission expenses	(25,876)	(18,542)
Total fee and commission expenses	**(217,412)**	**(215,142)**
Net fee and commission income	**1,214,679**	**1,239,658**

Fees from banking services include fees from the administration of cross border loans in the amount of RSD 112,717 thousand (2012: RSD 131,813 thousand), fees from contracts on joint operations in the amount of RSD 53,000 thousand (2012: RSD 45,317 thousand) and fees from contractual term changes in the amount of RSD 1,350 thousand (2012: 36,204 thousand).

Other fee and commission income include fees and commissions from banks amounting to RSD 4,702 thousand (2012 RSD 3,634 thousand), and other fees from customers of RSD 38,887 thousand (2012: RSD 11,514 thousand).

Other fees and commission expenses include fee expenses to banks amounting to RSD 21,116 thousand (2012: RSD 18,427 thousand) and fees to other parties amounting to RSD 4,760 thousand (2011: RSD 115 thousand).

6. Net trading income

	Year ended 31 December	
	2013	**2012**
Currency translation gains	14,480	63,032
Transaction losses from foreign exchange trading operations with other banks	(1,985)	(36,240)
Transaction gains from foreign exchange trading operations with customers	176,845	186,111
Total net trading income	**189,340**	**212,903**

7. Net result from derivatives

	Year ended 31 December	
	2013	**2012**
Losses from fair value changes for financial assets at fair value through profit or loss-currency swaps	(167,874)	(206,840)
Losses from fair value changes for financial assets at fair value through profit or loss-interest rate swaps	(1,220)	(6,447)
Gains from fair value changes for financial assets at fair value through profit or loss-currency swaps	150,687	170,962
Gains from fair value changes for financial assets at fair value through profit or loss-interest rate swaps	1,183	307
Net result from derivatives	**(17,224)**	**(42,018)**

8. Other operating income

	Year ended 31 December	
	2013	**2012**
Insurance indemnity	687	191
Reimbursement of expenses for bills of exchange and safe bags for money	7,847	9,099
Income from litigation settlements	29,583	11,129
Release of provision on retirement benefit obligations	13,388	2,812
Income from amortisation of grants	2,693	1,457
Income from reversals of other provisions not related to lending	1,107	3,629
Income surplus from sale of repossessed property	5,644	1,629
Other	11,688	2,301
Total operating income	**72,637**	**32,247**

9. Other income

	Year ended 31 December	
	2013	**2012**
Net income from disposal of property, plant and equipment	6,921	13,037
Total other income	**6,921**	**13,037**

10. Net impairment loss on financial assets

	Year ended 31 December	
	2013	**2012**
Charge for the year loans to customers	(4,234,579)	(4,811,226)
Expenses derived from write-offs	(6,637)	(7,986)
Release of provision loans to customers	3,969,998	3,826,921
Recovery of written-off loans	171,465	165,614
Total impairment provision	**(99,753)**	**(826,677)**

11. Personnel expenses

	Year ended 31 December	
	2013	**2012**
Wages and salaries	(1,193,079)	(1,134,091)
State pension contributions	(366,086)	(347,482)
Social security contribution	(221,985)	(218,746)
Taxes and contributions on salaries	(159,957)	(179,180)
Fringe benefits	(119,888)	(88,161)
Total personnel expenses	**(2,060,995)**	**(1,967,660)**

12. Other administrative expenses

	Year ended 31 December	
	2013	**2012**
Office rent	(288,801)	(298,885)
Marketing and representation	(186,465)	(206,393)
Office supplies and other office utilities	(128,320)	(136,136)
Other service expenses	(95,427)	(82,613)
Communication expenses	(81,104)	(80,169)
Expenses for consulting services	(124,571)	(106,328)
Transport expenses	(68,119)	(57,849)
Legal and advisory expenses	(22,623)	(63,651)
Security	(51,637)	(46,551)
Other taxes	(141,939)	(93,530)
Training expenses	(62,561)	(61,537)
Expenses for royalties on software	(81,399)	(50,627)
Expenses for repairs and maintenance	(40,838)	(44,676)
Insurance expenses	(8,726)	(10,231)
One-time working contracts	(7,183)	(5,567)
IT maintenance	(2,613)	(1,654)
Deposit insurance premiums	(121,343)	(106,878)
Expenses for litigation settlements	(38,232)	(26,825)
Expenses for stipends	(8,970)	(22,214)
Expenses for provisions on off-balance	-	(8,677)
Expenses for impairment of repossessed properties	(24,013)	(19,381)
Other expenses	(12,557)	(13,041)
Total other administrative expenses	**(1,597,441)**	**(1,543,413)**

13. Income taxes

	Year ended 31 December	
	2013	**2012**
Deferred income tax expenses	(137,997)	(113,879)
Current income tax expense	(264,692)	(113,971)
Deferred taxes on remeasurment of defined benefit plans	255	-
Deferred income tax credit	73,600	72,742
Total income tax expenses	(328,834)	(155,108)

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the official rate as follows:

	Year ended 31 December	
	2013	**2012**
Profit before tax	2,601,157	1,969,603
Tax calculated at a tax rate of 15% (2012:10%)	(390,174)	(196,960)
Fines and penalties	(195)	(117)
Accounting depreciation above tax depreciation	(9,824)	(6,517)
Other non-deductible expenses	(65,461)	(20,012)
Utilised tax credits	126,276	110,788
Income not subject to tax	12,008	(20,516)
Provisions not subject to tax	(1,464)	(21,774)
Income tax expense	(328,834)	(155,108)

According to Serbian tax law, the members of the Group is entitled to tax credits, based on the amounts invested in property and equipment and the number of new employees hired, and to use these credits to reduce the current income tax liability. Tax credits for new employees hired can be used by the members of the Group only in the year when declared. Tax credits for new investments in property and equipment used for the prevailing business activity and all other activities inscribed by the founding documentation, amounts 20% of the paid investment and can be carried forward for a period of 10 years and offset with the future tax liabilities. Tax liability could be offset by 33% of tax credit.

	Effective tax rate 2013	**2013**	**Effective tax rate 2013**	**2012**
Profit before tax		2,601,157		1,969,603
Tax calculated at a tax rate	(15%)	(390,174)	(10%)	(196,960)
Non-deductible expenses	(3%)	(75,481)	(3%)	(68,936)
Income not subject to tax	0%	10,545	0%	-
Utilized tax credit	5%	126,276	6%	110,788
	(13%)	**(328,834)**	**(8%)**	**(155,108)**

14. Cash and cash equivalents

	At 31 December	
	2013	**2012**
Cash on hand	1,919,802	6,987,431
Mandatory reserve	8,660,724	2,929,492
Other balances with the National Bank of Serbia	513,689	515,049
Repo transactions	2,100,440	1,001,684
Total	**13,194,655**	**11,433,656**

Regulations of the National Bank of Serbia (NBS) related to mandatory reserve haven't changed during 2013.

At the end of December, mandatory reserve in local currency is calculated by applying the following ratios:
– 5% – on the average daily amount deposits in local currency maturing in less than two years
– 0% – on the average daily amount deposits in local currency maturing in over two years.

Mandatory reserve in foreign currency is calculated by applying the following ratios:
– 29% – on the borrowings from abroad and deposits in foreign currency maturing in less than two years (without indexed liabilities), 50% – on the borrowings indexed to foreign currency maturing in less than two years,
– 22% – on the borrowings from abroad and deposits in foreign currency maturing in over two years (without indexed liabilities), 50% – on the borrowings indexed to foreign currency maturing in over two years.

Required reserves in local currency is allocated: required reserves in local currency calculated plus 32% of the accrued foreign currency reserve up to 2 years maturity plus 24% of the accrued foreign currency reserve in over 2 years maturity.

Required reserves in foreign currency is allocated: 68% of the accrued foreign currency reserve up to 2 years maturity plus 76% of the accrued foreign currency reserve in over 2 years maturity.

Mandatory reserves on subordinated debt are calculated applying the rate of 0 % on the average daily liabilities for subordinated debt in preceding month.

Group does not calculate required reserves at liabilities in local and foreign currency respect of funds received by banks from international financial institutions, governments and financial institutions founded by foreign states, through the intermediation of the government as the main debtor and/or owner of these funds or received directly, provided that the agreed principles of setting interest spreads are complied with on reinvestment of those funds.

Mandatory reserves can be used by the Group in its day-to-day operations. The NBS pays interest of 2.5% on mandatory reserve in RSD and does not pay any interest on mandatory reserve in foreign currency.

15. Loans and advances to banks

	At 31 December	
	2013	**2012**
Nostro accounts	349,461	548,546
Money market placements	699,971	793,102
Accrued interest	3,013	2,894
Accrued fee	421	364
Total	**1,052,866**	**1,344,906**

Nostro accounts represent the account balances with Commerzbank AG, ProCredit Bank Bulgaria, Standard Chartered Bank GMBH, Standard Chartered Bank New York and Deutsche Bank AG.

All loans and advances to banks are current assets.

16. Loans and advances to customers

	At 31 December	
	2013	**2012**
Legal entities	22,642,412	25,179,265
Entrepreneurs	9,161,152	9,477,067
Agricultural	13,675,389	13,295,617
Private individuals	10,091,613	8,703,204
	55,570,566	**56,655,153**
Unearned future finance income on finance leases	(161,681)	(207,988)
Deferred fee income	(494,069)	(456,805)
Allowance for impairment	(2,687,855)	(3,114,375)
Loans and advances to customers	**52,226,961**	**52,875,985**

Movements in the allowance for losses on loans and advances are as follows:

	2013	**2012**
Balance at 1 January	**3,114,375**	**2,084,798**
Provision charge for impairment of loans and advances (Note 10)	4,234,579	4,811,226
Loans written off	(3,969,998)	(3,826,921)
Write offs	(648,142)	(7,970)
Unwinding effect (Note 4)	(63,498)	(76,821)
Exchange rate differences	20,539	130,063
Balance at 31 December	**2,687,855**	**3,114,375**

Loans and advances to customers include finance lease receivables:

	At 31 December	
	2013	**2012**
Gross investment in finance leases		
No later than 1 year	696,536	813,849
Later than 1 year and no later than 5 years	882,985	919,902
Later than 5 years	2,076	4,102
	1,581,597	**1,737,853**
Unearned future finance income on finance leases	(161,681)	(207,988)
Net investment in finance leases	**1,419,916**	**1,529,865**

Net investment in finance lease

	At 31 December	
	2013	**2012**
No later than 1 year	608,664	700,422
Later than 1 year and no later than 5 years	809,189	825,537
Later than 5 years	2,063	3,906
	1,419,916	**1,529,865**

17. Derivative financial assets

Derivative financial assets amounting to RSD 75 thousand (31 December 2012: RSD 1,323 thousand) include receivables arising from changes in value of currency swap with Commerzbank AG for EUR 1,300 thousand and currency swaps with Barclays Bank for EUR 4,500 thousand. Currency swaps are commitments to exchange one set of cash flows for another. The risk is monitored on an ongoing base with reference to the current fair value, and the liquidity of the market.

During 2013 the Group entered into foreign currency swap agreements in order to hedge its open currency position. The foreign currency swaps were economic hedges only and hedge accounting was not applied.

The changes in fair value of interest rate and currency swaps are presented in the profit and loss in the position “net result from financial assets at fair value through profit or loss” (Note 7).

18. Available-for-sale securities

Financial assets available for sale include Visa International shares worth RSD 38,614 thousand and SWIFT shares worth RSD 2,151 thousand.

	At 31 December	
	2013	**2012**
Shares in companies situated in OECD countries	40,765	29,382
Total available-for-sale securities	**40,765**	**29,382**

The revaluation of available for sale financial assets in “other comprehensive income” shows the following changes:

Movements in revaluation reserve (AFS)

	2013	**2012**
As at January 1	15,527	7,571
Fair value remeasurement	12,474	8,997
Deferred taxes	(2,600)	(1,041)
As at December 31	**25,401**	**15,527**

19. Intangible assets

Movements in intangible assets for the years 2013 and 2012 are presented in the table below:

	Software
Cost	
Balance, 1 January 2012	375,159
Additions	58,140
Balance, 31 December 2012	**433,299**
Accumulated amortisation	
Balance, 1 January 2012	164,381
Charge for the year	70,459
Balance, 31 December 2012	**234,840**
Net book value at 31 December 2012	**198,459**
Cost	
Balance, 1 January 2013	433,299
Additions	170,175
Disposals	(4,523)
Balance, 31 December 2013	**598,951**
Accumulated amortisation	
Balance, 1 January 2013	234,840
Charge for the year	73,775
Disposals	(4,371)
Balance, 31 December 2013	**304,244**
Net book value at 31 December 2013	**294,707**

20. Property and equipment

Movements in property and equipment for 2013 and 2012 are presented in the table below:

	Building	Leasehold improvements	IT and other equipment	Furniture and fixtures	Total
Cost					
Balance, 1 January 2012	791,204	267,247	1,367,420	176,376	2,602,247
Additions	162,829	29,246	187,156	4,199	383,430
Disposals	(17,495)	(9,228)	(89,596)	(4,972)	(121,291)
Balance, 31 December 2012	**936,538**	**287,265**	**1,464,980**	**175,603**	**2,864,386**
Accumulated Depreciation					
Balance, 1 January 2012	53,791	194,208	949,363	112,376	1,309,738
Disposals	(109)	(7,779)	(87,413)	(4,051)	(99,352)
Charge for the year	21,054	21,615	162,300	15,041	220,010
Balance, 31 December 2012	**74,736**	**208,044**	**1,024,250**	**123,366**	**1,430,396**
Net book value at 31 December 2012	**861,802**	**79,221**	**440,730**	**52,237**	**1,433,990**
Cost					
Balance, 1 January 2013	936,538	287,265	1,464,980	175,603	2,864,386
Additions	238,034	35,335	217,841	8,968	500,178
Disposals	-	(42,871)	(229,936)	(16,486)	(289,293)
Balance, 31 December 2013	**1,174,572**	**279,729**	**1,452,885**	**168,085**	**3,075,271**
Accumulated Depreciation					
Balance, 1 January 2013	74,736	208,044	1,024,250	123,366	1,430,396
Disposals	-	(40,706)	(210,645)	(14,642)	(265,993)
Charge for the year	24,520	19,074	163,433	13,691	220,718
Balance, 31 December 2013	**99,256**	**186,412**	**977,038**	**122,415**	**1,385,121**
Net book value at 31 December 2013	**1,075,316**	**93,317**	**475,847**	**45,670**	**1,690,150**

The Bank has not registered the total surface of the building in 17 Milutina Milanković street in Belgrade on cadastre parcel No. 1222/22.

21. Deferred tax assets

Deferred tax assets are calculated on all temporary differences under the liability method using an effective tax rate of 15% (2012: 15%).

Deferred tax assets are attributable to the following items:

	At 31 December	
	2013	**2012**
Tax credit carried forward (expiring in the period over 5 years)	36,077	95,538
Accelerated tax depreciation	42,251	43,685
Other provision	2,472	4,231
Temporary differences, equity reserve	(6,224)	(1,882)
As at 31 December	**74,576**	**141,572**

Movements in the deferred tax assets account are as follows:

	2013	2012
As of 1 January	141,572	183,751
Differed tax on other assets	1,464	21,977
Fair value measurement of available for sale securities	(2,600)	(1,041)
Deferred tax on tax credit	(65,860)	(63,115)
As at 31 December	**74,576**	**141,572**

The deferred tax charge in the consolidated statement of profit or loss and other comprehensive income comprises the following temporary differences:

	At 31 December	
	2013	2012
Tax credit on investment in property and equipment	72,410	53,057
Other provisions	-	1,152
Tax depreciation	1,189	18,533
As at 31 December	**73,599**	**72,742**

All deferred tax assets are to be recovered after more than 12 months. The Group is profitable and it is expected to generate deferred tax assets.

22. Other assets

a)	At 31 December	
	2013	2012
Accounts receivables	621,231	559,352
Prepayments	152,455	118,725
Repossessed properties	128,339	79,781
Deferred items	108,476	115,905
Claims on insurances	96	9
Claims from customs and taxes	656	108
Inventory items	11,042	6,581
Advance payments on fix assets	15,049	15,049
Other	2,889	3,404
Total	**1,040,233**	**898,914**

Prepayments mostly related to claims for maternity pay amounting to RSD 46,337 thousand (31 December 2012: RSD 39,026 thousand).

Deferred items consist of the following:

- Deferred expenses that are related to rent amounting to RSD 137 thousand (31 December 2012: RSD 3,377 thousand),
- Deferred advance payments to creditors amounting to RSD 6,964 thousand (31 December 2012: RSD 11,309 thousand),
- Other deferred expenses amounting to RSD 101,375 thousand (31 December 2012: RSD 101,219 thousand).

b) Financial and non-financial assets

	At 31 December	
	2013	**2012**
Financial	814,283	704,222
Non-financial	225,950	194,692
	1,040,233	**898,914**

23. Deposits from banks

	At 31 December	
	2013	**2012**
Liabilities for spot transactions	114,642	339,357
Liabilities for term transactions	23,501	618,510
Other banks deposits	6	1,208,143
Accrued interest on deposits	-	6
Total	**138,149**	**2,166,016**

Liabilities for term transactions as at 31 December 2013 consist of foreign exchange deals amounting to RSD 23,501 thousand (2012: RSD 618,510 thousand) and spot transactions amounting to RSD 114,642 thousand (2012: RSD 339,357 thousand).

Other bank deposits as at 31 December 2013 consist of deposits from banks in the process of bankruptcy amounting to RSD 1 thousand (2012: RSD 5 thousand) and loro accounts with OECD banks amounting to RSD 5 thousand (2012: 1,208,138 thousand).

The amount presented under other bank deposits as at 31 December 2012 refers mainly to the liability arising from the transaction of Commerzbank AG selling its the shares of the Bank to ProCredit Holding in the total amount of RSD 1,137,183 thousands.

24. Derivative financial liabilities

Derivative financial liabilities amounting to RSD 4,103 thousand (2012: RSD 7,122 thousand) comprise liabilities based on change in the value of interest rate swaps amounting to RSD 3,194 thousand (2012: RSD 6,757 thousand) and liabilities based on change in the value of currency swaps amounting to RSD 909 thousand (2012: RSD 365 thousand).

Interest rate swaps are used to exchange commitments with floating interest rates for commitments with fixed interest rates. As of 31 December 2013 the Group had fixed-for-floating interest rate swaps with Commerzbank AG of EUR 775 thousand. The Group entered into swap agreements in order to hedge its open maturity gap between the re-pricing of long-term loans taken at floating rates and the re-pricing of loans disbursed at floating interest rates (Note 3.C.2 Interest rate risk).

During 2013 the Group entered into foreign currency swap agreements in order to hedge its open currency position. The foreign currency swaps were economic hedges only and hedge accounting was not applied. Currency swaps are agreed with Commerzbank AG for EUR 1,300 thousand and currency swaps with Barclays Bank for EUR 4,500 thousand.

The fair value of interest rate and currency swaps are presented in the profit and loss in the position “net result from derivatives” (Note 7).

25. Due to customers

	At 31 December	
	2013	**2012**
Current accounts		
–private clients	2,765,455	2,239,974
–business clients	7,686,013	7,103,010
Savings accounts		
– private clients	2,436,215	2,431,065
Term deposit accounts		
– private clients	18,577,649	15,902,144
– business clients	2,700,240	3,936,320
Deposit as collateral from credit commitment (off-balance)	9,637	-
Deposit as collateral on balance exposure	2,080,859	1,915,716
Other liabilities	632,607	611,813
	36,888,675	**34,140,042**
Accrued interest on deposits	283,705	305,198
Total deposits	**37,172,380**	**34,445,240**

26. Borrowings

Borrowings include long term borrowed funds from international financial institutions and foreign banks. The table below summarises borrowings as of 31 December 2013:

	Maturity	**Interest rate**	**RSD thousand 2013**	**RSD thousand 2012**
European Bank for Reconstruction and Development (EBRD)	2010-2017	Euribor + 3.00% - 4.00%	3,930,586	4,223,823
Kreditanstalt für Wiederaufbau (KfW)	2007-2019	1.75% - Euribor + 4.90%	5,732,488	4,548,958
International Finance Corporation	2010-2015	Euribor + 3%	1,125,949	2,050,991
Instituto de Credito Oficial	2004-2015	Euribor + 2.34% - 2.50%	573,210	909,747
Financierings - Maatschappij voor Ontwikkelingslanden (FMO)	2006-2013	Euribor + 2.65% - 6.68%	-	284,296
EFSE	2006-2018	Euribor + 2.3% - 3.20%	1,524,741	1,345,125
EIB	2012-2019	3-6MEuribor+0.657%-2.71%	3,254,868	2,887,485
ProCredit Germany	2013-2018	6M Euribor + 2.25% - 2.4%	917,137	-
			17,058,979	16,250,425
Accrued interest			76,507	89,252
Deferred fees			(45,344)	(50,775)
Total			**17,090,142**	**16,288,902**

The Group is obliged to comply with a number of debt covenants set in the borrowing contracts, such as risk weighted capital adequacy ratio, single client exposure ratio, aggregate large exposure ratio, group exposure ratio, related party exposure ratio, interest rate risk ratio, open credit exposure ratio, open foreign currency positions in any currency and in aggregate, etc.

As of 31 December 2013 and 2012 the Group was not in breach of any debt covenants in respect of its borrowed funds, except for the ratios in the KfW loan agreement regarding the proportion of non-performing leases in the total lease portfolio of ProCredit Leasing (for 2013 and 2012) and the coverage of non-performing leases with lease-loss provisions (only for 2012). ProCredit Leasing (borrower) has been granted waivers by KfW (lender) for entire 2012 and entire 2013, under which the lender has declared that they do not intend to exercise their rights to demand additional securities, or to terminate the loan agreement as of 31 December 2012 or 31 December 2013 respectfully, provided that the borrower shall at no time be in breach of any other obligation under the loan agreement.

Unused credit lines from international financial institutions and foreign banks are presented in the table below:

Institution	Amount approved	Currency	Outstanding as at 31.12.2013	Interest rate
ProCredit Holding	30,000,000	EUR	30,000,000	Euribor + 4%
EIB	20,000,000	EUR	7,108,434	Fixed rate/ Floating rate
KFW NBS	40,000,000	EUR	20,000,000	3.20%
Loan from Italian Government	up to 30 mio eur for all banks in the program	EUR	up to 30 mio eur for all banks in the program	0.35% interest for loan, 0.5% fee for National Bank of Serbia
Loan from Kingdom of Denmark	up to 15 mio DKK (cca 2 mio eur) for all banks in the program	EUR	up to 15 mio DKK (cca 2 mio eur) for all banks in the program	0% interest for loan, 0.5% fee for National Bank of Serbia
EFSE	15,000,000	EUR	10,000,000	Euribor + 3.20%

27. Subordinated debt

	Initial loan in EUR	Carrying value in EUR	Maturity	RSD thousand	RSD thousand
		2013		2013	2012
ProCredit Holding	16,000,000	16,000,000	2011-2023	1,834,274	1,137,183
EFSE-subordinated debt	27,000,000	27,000,000	2006-2019	1,719,631	3,070,394
Accrued interest	-	-	-	17,025	23,369
Deferred fees	-	-	-	-	(51)
Total				**3,570,930**	**4,230,895**

28. Current income tax liabilities

Tax liability as at 31 December 2013 amounted to RSD 37,846 thousand is current income tax liability (31 December 2012: RSD 29,619).

29. Provisions

	At 31 December 2013	At 31 December 2012
Retirement pension provision	28,096	28,211
Provisions for lawsuits and recourse claims	67,010	52,663
Provision for untaken annual leave	42,732	48,166
Provision for off-balance items	33,825	48,776
Total provisions	**171,663**	**177,816**

Retirement benefit obligations are paid upon the regular retirement of the employee. The right to this benefit is conditional on retaining the employee until the regular retirement age. Expected costs for this allowance are accumulated during the employee's working years. The defined retirement obligation is estimated on a yearly basis by an independent, certified actuary by applying a projected credit sample. The net present value of this liability is determined by discounting future net cash outflows and applying interest rates on long-term bonds issued in the same currency and with similar maturity terms as the retirement benefit obligations.

Retirement benefit obligations which mature more than 12 months after the date of consolidated statement of financial position are discounted to net present value.

Movement in provisions is as follows:

	2013	2012
Balance at 1 January	**177,816**	**165,402**
Charge for the year	80,849	293,954
Releases	(86,949)	(283,154)
Other	(53)	1,614
Balance at 31 December	**171,663**	**177,816**

Movement in provisions for retirement benefit obligations:

	2013	2012
Balance at 1 January	**28,211**	**31,022**
Release	(115)	(2,811)
Balance at 31 December	**28,096**	**28,211**

Movement in provisions for off-balance items is as follows:

	2013	2012
Balance at 1 January	**48,776**	**38,799**
Additions	-	218,964
Releases	(14,974)	(210,286)
Other	23	1,299
Balance at 31 December	**33,825**	**48,776**

30. Other liabilities

	At 31 December	
	2013	**2012**
Liabilities to employees	71	58
Taxes, contributions and other charges	10,168	8,506
Liabilities to suppliers	75,246	78,085
Prepayments received for loan instalments	44,568	34,513
Liabilities to Credit Bureau	-	26,213
Deferred income from subventions	49,861	85,488
Prepayments received	107,811	108,224
Other liabilities	42,078	28,482
	329,803	**369,569**

31. Equity

EQUITY	2013	2012
Share capital	3,663,012	3,663,012
Share premium	2,776,745	2,776,745
Retained earnings	2,981,078	2,543,860
Revaluation reserve	35,273	15,527
Special banking risk reserves	1,643,864	1,643,864
Total equity	**11,099,972**	**10,643,008**

The ownership structure of ProCredit Bank a.d. Belgrade as at 31 December 2013 and 2012 was as follows:

	Number of shares		**Share in %**	
	2013	**2012**	**2013**	**2012**
ProCredit Holding	3,663,012	3,663,012	100	100
	3,663,012	**3,663,012**	**100**	**100**

The Group is controlled by ProCredit Holding, Germany, which owns 100% of the shares from June 2012.The ultimate parent of the Group is ProCredit Holding.

The total number of shares at the end of the year was 3,663,012 (2012: 3,663,012) with nominal value of 1,000 RSD per share (2012: 1,000 RSD per share). In 2013 there was no issue of new shares.

In July 2013 the Group paid dividends to ProCredit Holding amounting RSD 1,826,679 thousand.

As at 31 December 2012, the special banking risk reserves under the National bank of Serbia regulations amounted to RSD 1,643,864 thousand. During 2013 there was no additional allocation to special account reserves.

32. Cash and cash equivalents

	At 31 December	
	2013	**2012**
Cash and cash equivalents (Note 14)	13,194,655	11,433,656
Loans and advances to banks (Note 15)	1,052,866	1,344,906
	14,247,521	**12,778,562**

33. Contingent liabilities and commitments

The following table indicates the contractual amounts of the Group's off-balance financial instruments that commit it to extend credit to customers:

	At 31 December	
	2013	**2012**
Guarantees	3,543,156	4,303,311
Loan commitments	3,845,076	3,702,590
Letters of credit	57,246	48,268
Credit related commitments	7,445,478	8,054,169
Performance guarantees	1,242,902	993,227
Balance as at 31 December	**8,688,380**	**9,047,396**

The following table shows the operating lease commitments for business premises rental:

	At 31 December	
	2013	**2012**
No later than 1 year	1,655	12,358
Later than 1 year and no later than 5 years	346,737	455,510
Later than 5 years	614,333	604,342
	962,725	**1,072,210**

Operating lease contracts are so defined that for a number of contract price is defined by the expiration of the contract (typically a period of 10 years), and for the second part of the contract price is defined for a period of 5 +5 years, that after five years of the new contract price, depending on market movements.

The lease agreements provided for a right of pre-emption and defines the way of continuing the lease.

34. Related party transactions

In the normal course of business, the Group enters into transactions with its shareholders and other ProCredit institutions in Central and Eastern Europe.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and foreign currency transactions. There were related-party transactions with the ultimate parent company ProCredit Holding, in addition to the payment of dividends on ordinary shares.

	At 31 December	
	2013	**2012**
Nostro accounts		
ProCredit Bank Bulgaria	23,052	12,179
Other receivables		
ProCredit Holding	8,839	163
PC Finance II	665	672
ProCredit Academy Germany	9,550	-
ProCredit Bank Kosovo	-	235
ProCredit bank Bosnia	51	-
Quipu GMBH	984	-
Banco ProCredit Ecuador	-	311

Liabilities to group companies		
PC Finance II	738,264	1,139,434
Borrowed funds from related parties		
ProCredit Bank Germany	917,607	-
ProCredit Holding	1,834,274	1,137,183
Other liabilities to group companies		
ProCredit Holding	31,936	15,590
PC Finance II	1,291	1,710
ProCredit Bank Kosovo	42	44
ProCredit Academy Germany	-	100
ProCredit Bank Germany	417	-
Off balance items		
Stand-by line from ProCredit Holding	3,439,263	3,411,549
Guarantees issued to PC Finance II	521,673	478,155
Guarantees issued to ProCredit Bulgaria	270,548	768,930

35. Related party transactions (continued)

The volumes of related party transactions and related expenses for the year are as follows:

	2013	2012
Deposits from banks		
Outstanding at 1 January	-	109,873
Deposits collected during year	-	-
Deposits returned during the year	-	(109,873)
Outstanding at 31 December	**-**	**-**
Borrowings		
Loans outstanding at 1 January	1,137,183	3,871,713
Loans borrowed during the year	1,270,302	-
Loans repayments during the year	-	(2,734,530)
Loans outstanding at 31 December	**2,407,485**	**1,137,183**

	2013	2012
Other fees income	**2,398**	**2,111**
PC Finance II	2,398	2,111
Commission income	**1,430**	**-**
ProCredit Holding	1,375	-
ProCredit Bank Germany	4	-
ProCredit Bank Bosnia	51	-
Interest expenses on subordinated liabilities	**109,951**	**101,232**
ProCredit Holding	109,951	101,232
Interest expenses on liabilities	**105,425**	**76,257**
ProCredit Holding	56,569	44,019
ProCredit Bank Germany	755	-
ProCredit bank Bulgaria	2	-
PC Finance II	48,099	32,238
Fee expenses	**50,064**	**50,698**
ProCredit Holding	1,722	-
ProCredit Bank Germany	207	-
Quipu GMBH	45,221	45,958
Quipu Kosovo	2,914	4,740

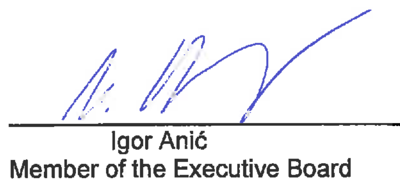
Other expenses	**164,356**	**148,316**
ProCredit Bank Germany	12	-
Procredit Academy Germany	25,900	27,183
Procredit Academy Macedonia	17,745	15,405
ProCredit Holding	117,875	105,728
Quipu GMBH	2,824	-

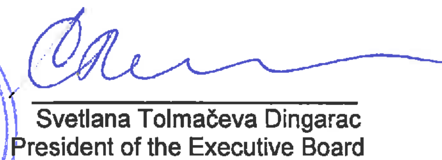
Other expenses is related to Management Service Agreement amounted RSD 104,783 thousand (2012: RSD 105.624 thousand), training amounted RSD 45,441 thousand (2012: RSD 42,588 thousand) and other expenses amounted RSD 14,132 thousand (2012: RSD 104 thousand).

Paid salaries and other short-term employee benefits to the members of Executive Board as of 31 December 2013 amounted RSD 37,143 thousand (2012: RSD 24,902 thousand). No other benefits were paid to key management staff.

36. Events after the date of consolidated statement of financial position

For the period up to and including, no events have occurred which have any substantial impact on the consolidated financial statements for the year ending 31 December 2013.





Igor Anić
Member of the Executive Board

Svetlana Tolmačeva Dingarac
President of the Executive Board